

RUSSIA'S ROAD TO CORRUPTION

How the Clinton Administration Exported
Government Instead of Free Enterprise and
Failed the Russian People





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United States House of Representatives 106th Congress

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INTRODUCTION

In March 2000, as Russia prepared for the presidential election that would formally establish the successor to the Yeltsin administration, the Speaker of the House tasked the leadership of six committees of the House of Representatives to assess the results of U.S. policy toward Russia during the Yeltsin years. This report is the result of that effort.

The Speaker's Advisory Group on Russia comprises the Chairmen of the Committees on Armed Services, Appropriations, Banking, Intelligence, and International Relations, as well as the House Vice Chairman of the Joint Economic Committee, and additional members of the House leadership and the committees of jurisdiction. The Advisory Group and its professional staff met several times each week over the past five months with key Clinton administration policy makers, leaders of Russia's executive and legislative branches, and leading academic and private sector experts on Russia and U.S.-Russian relations from both countries. The Advisory Group reviewed the voluminous committee work and official reports produced by each of the relevant committees of Congress, as well as a wide range of primary and secondary sources. In addition, the Chairman, and members of the Advisory Group, and its professional staff have traveled to Russia on several occasions since March 2000.

The persons with whom the Advisory Group and its staff met in the course of preparation of this report include Treasury Secretary Lawrence Summers; Ambassador Thomas Pickering, Under Secretary of State for Political Affairs; U.S. Ambassador to Russia James Collins; Ambassador Stephen R. Sestanovich, Special Advisor for the Newly Independent States; Thomas Dine, Director of Radio Free Europe/Radio Liberty; Prime Minister Mikhail Kasyanov; Foreign Minister Igor Ivanov; former Secretary of the Security Council Andrei Kokoshin; First Deputy Minister of Defense Nikolay Mikhailov; State Duma Member Igor A. Annensky, Deputy Chairman of the Banking Committee; State Duma Member Alexei Arbatov, Deputy Chairman of the Defense Committee; State Duma Member Boris Gryzlov, leader of the Unity party in the Duma; State Duma Member Konstantin Kosachev,

Deputy Chairman of the International Affairs Committee; State Duma Member Viktor S. Pleskachevsky, Chairman of the Subcommittee on the Funds Market; State Duma Member Vladislav Reznik, Deputy Chairman of the Committee on Budget and Taxes; State Duma Member Dimitri O. Rogozin, Chairman of the International Affairs Committee; State Duma Member Vladimir Ryzhkov; State Duma Member Alexander Shabanov, Deputy Chairman of the International Affairs Committee; State Duma Member Alexander N. Shokhin, Chairman of the Credit Organizations and Financial Markets Committee; State Duma Member Grigory Yavlinsky, leader of the *Yabloko* party; Andrei Babitsky, journalist, Radio Free Europe/Radio Liberty; Scott Blacklin, President, American Chamber of Commerce, Moscow; Dr. James Billington, Librarian of Congress; Paula Dobriansky, Vice President, Council on Foreign Relations; Pavel Felgengauer, military analyst and author; former Russian Finance Minister Boris Fyodorov; Dr. Thomas Graham, Senior Associate, the Carnegie Endowment for International Peace; Sergei Karaganov, Chairman, Council on Foreign and Defense Policy; Igor Malashenko, Media MOST; Arkady Murashev, Chairman of the Center for Liberal-Conservative Policy and former Duma Member; Ruslan Pukhov, Director, Center for Analysis of Strategy and Technology; Peter W. Rodman, Director of National Security Programs at The Nixon Center; Ivan Safranchuk, Project Director, Center for Policy Studies in Russia; Dimitri Simes, President of The Nixon Center; and Dimitri Trenin, Deputy Director, Carnegie Endowment for International Peace (Moscow Center).

This report begins with a summary of the historic events that led to the collapse of the Soviet Union in December 1991 and a description of the conditions in Russia during the last year of the Bush administration and at the commencement of the Clinton administration. It assesses the task ahead for Russia in moving from a century of state control to a free enterprise democracy, and compares that agenda with the actual policies pursued by the Clinton administration from 1993 to the present. The manifold failures of both Russian and U.S. government policy are surveyed: the early corruption of the non-market "privatization" to insiders; the spread of organized crime; the eventual complete collapse of the Russian economy in 1998; the rise of weapons proliferation as a means of generating hard currency; and the increasing estrangement of Russia from the United States, essentially reversing the trends that existed in 1992.

Finally, the report addresses itself to the opportunities for U.S.-Russian relations that still remain, despite years of failure. Recommendations of the Advisory Group for future policy appear at the conclusion of the report.

September 2000

EXECUTIVE SUMMARY



The Fall of the Soviet Union and the Rise of Russia

The collapse of the Soviet Union brought to an end one of the cruelest, most violent, least humane, and most viciously ideological regimes in the history of the world. The Soviet Union--more aptly, the Soviet Empire--collapsed of its own weight, crushed by the material and spiritual burdens of its collectivist ideology.

In the final days of the Soviet Union, President Gorbachev desperately sought billions in foreign loans, and many in the West endorsed a policy of providing enormous amounts of aid in an attempt to save the collapsing Soviet economy. President Bush believed this would not work. "A shortage of foreign capital is not what plunged your economy into crisis, nor can your economic ills be cured by an infusion of cash," he told the Moscow State Institute for International Relations in a speech on July 31, 1991, five months before the Soviet Union ended.

When the Soviet Union's Vice President, Prime Minister, Defense Minister, KGB Chairman, and other hard-line Communists launched a coup against Gorbachev on August 19, 1991, the Russian President, Boris Yeltsin, denounced it as unconstitutional. The following day, on the only functioning phone line, Yeltsin spoke to President Bush, who firmly pledged that the United States would not recognize the coup government. Bush's action in support of Yeltsin and the Russian people proved decisive.

The rapid failure of the coup demonstrated the weakness of hard-line Soviet Communist Party elements. Within a month after the coup, 11 of the Soviet Union's 15 republics had declared their independence.

Following the coup, U.S. Secretary of State James A. Baker III and Gen. Vladimir Lobov, Chief of the Soviet General Staff, signed an agreement to dramatically reduce the number of short-range nuclear weapons in the U.S. and Soviet arsenals. By the end of the year, the United States had committed \$400 million to help dismantle Soviet nuclear weapons.

When Mikhail Gorbachev resigned as the last leader of the Soviet Union on December 25, 1991, America's relations with the largest of the captive nations newly freed from the Soviet Empire were auspicious.

Conditions in Russia at the Outset of the Yeltsin and Clinton Administrations

The West's victory in the Cold War presented America with its greatest foreign policy opportunity since the end of World War II. Just as America's defeated enemies, Nazi Germany and Imperial Japan, had become free enterprise democracies and close U.S. allies, so too might the new Russian Federation.

The U.S.-Russian relationship that President Clinton inherited could only have been dreamed of by his predecessors from Truman to Reagan. American values, including free enterprise and democracy, enjoyed an astonishing level of prestige and popularity among the Russian people. Building a relationship with the United States was the highest priority for the Russian government. Prior to 1993, Moscow worked harmoniously with Washington across virtually the entire spectrum of international issues--including Operation Desert Storm, waged against the Soviet Union's client state Iraq; arms control, culminating in a START II treaty that slashed U.S. and Russian nuclear arsenals by 66%; and ballistic missile defense, on which President Bush and President Yeltsin launched negotiations that were aimed at the changes in the ABM Treaty of 1972 necessary to take account of the spread of ballistic missiles and weapons of mass destruction.

The Task Ahead: Creation of a Free Enterprise System After a Century of State Control

The collapse of Communism in Russia ended not only the Soviet police state but the Soviet-era centrally-planned economy. In January 1992, there was for the first time in the experience of most living Russians a genuine opportunity to build the foundation of a free enterprise system.

The necessary bricks for that foundation were clear enough. The question was not whether, but where--and how--to begin. To move from the Soviet Union's state-controlled economy to a free enterprise system based on private property, markets, and individual choice called for change on a breathtakingly large scale.

- * Soviet-era laws and regulations governing commerce would have to be repealed.
- * New legal protections for private property and private contracts would have to be enacted, and the courts would have to build public confidence that private contracts would be enforceable.
- * Private banks that paid for deposits at market rates, evaluated credit risks according to market criteria, and served as genuine intermediaries between sources of capital and start-up private enterprises would have to be legalized.
- * The Soviet-era network of 200,000 inefficient state-owned enterprises would have to be forced into competition.
- * Over 1.5 trillion acres of arable land owned by the Soviet government would have to be transferred to private ownership to provide a source of wealth to the Russian people, collateral for commercial and agricultural lending, and the basis for home ownership and mortgage finance.
- * The existing stock of Soviet-era state-owned housing would have to be converted to private ownership, and the private construction of more and better housing legalized.
- * A workable bankruptcy procedure creating the "freedom to fail" would have to be established, in order to end wasteful subsidies and subject commercial enterprises to market

discipline.

- * A lower tax rate and simpler tax code would have to be enacted to demonstrate that the new Russian government was not bent on redistributing income but rather sought to promote a market economy.

- * A commercial code--a basic set of rules that could be relied upon by any Russian citizen or foreigner who wished to buy or sell something--would have to be enacted.

- * Soviet-era barriers to foreign investment in Russia would have to be eliminated.

The opportunities that awaited Russia in 1992 were exhilarating, but dismantling the Soviet system of government controls, and erecting in its place a free market economy based on private decision making and risk taking, was a task of monumental proportions. It required significant new legislation from Russia's parliament. Yet the ultimate objective was abundantly clear: the new Russian government's job was to get itself out of the economy and facilitate private actors through clear commercial rules for enforcement of private property rights and private contracts.

The Fundamental Flaws of the Clinton Administration's Russia Policy

During his 1992 campaign and the first several years of his administration, President Clinton made clear his unwillingness to involve himself in foreign policy generally, and the critical issue of U.S. policy toward Russia specifically. The virtual absence of any non-ceremonial presidential involvement in the greatest foreign policy opportunity for the United States since World War II was to prove crippling to the development and execution of United States policy toward Russia.

Lacking presidential attention, decision making on Russia policy eventually devolved to a troika of subordinate officials: Vice President Gore (assisted by his foreign policy mentor Leon Fuerth), Strobe Talbott at the State Department, and Lawrence Summers at the Treasury Department. Creation of the Gore-Talbott-Summers troika vested authority for the development and execution of Russia policy in an elite and uniquely insular policy-making group without accountability to the normal checks and balances within the executive branch.

The structure of the policy-making troika left the rest of the government either unwilling or unable to critically assess the direction of the Clinton administration policy. The policy decisions that emerged were marked with the personal biases and predispositions of these three individuals. Their small circle soon became an echo chamber, reinforcing their own views and excluding independent information, analyses, and recommendations from the national security, foreign policy, and intelligence professionals throughout the U.S. government.

The troika also excluded Congress from the development of the Clinton administration's Russia policy, thereby further isolating it from outside review, and failing to develop the broader institutional and popular support that it would need to succeed in America and abroad. As a result, the Clinton administration's policy has repeatedly been repudiated by bipartisan majorities in Congress.

The unorthodox "troika" institutional arrangement produced the following fundamental flaws in U.S. policy toward Russia from 1993 forward:

- * A strong preference for strengthening Russia's central government, rather than deconstructing the Soviet state and building from scratch a system of free enterprise
- * A close personal association with a few Russian officials, even after they became corrupt, instead of a consistent and principled approach to policy that transcended personalities
- * A narrow focus on the Russian executive branch to the near exclusion of the Russian legislature, regional governments, and private organizations
- * An arrogance toward Russia's nascent democratic constituencies that led to attempts at democratic ends through decidedly non-democratic means
- * An unwillingness to let facts guide policy, or even to make mid-course corrections in light of increasing corruption and mounting evidence of the failure of their policies

By focusing on strengthening the finances of the Russian government and on transforming state-owned monopolies into private monopolies, instead of building the fundamentals of a free enterprise system, the Clinton administration ensured that billions in Western economic assistance to Russia would amount to mere temporizing. The Gore-Talbott-Summers focus--on macromanagement of the Russian economy instead of the legal fundamentals that would permit individuals to start businesses, grow a competitive market economy, and create a tax base--doomed their "privatization" efforts to failure.

Worse, by using massive lending and aid to plug the gap in the Russian central government's operating budget, the Clinton administration exposed these funds to theft and fraud.

For its part, the Russian government lacked the facility to turn these massive aid flows into real economic reform. Instead, the aid had the opposite effect: it made possible the subsidies to the Soviet enterprise network that allowed it to continue operating. Effectively unconditional large-scale international assistance simply contributed to Russia's problems by killing incentives to reform and propping up a government whose policies were bankrupting the Russian people.

The flood of loans also added to Russia's growing foreign debt, which continues to burden the central government's operating budget and weigh down the nation's economic prospects.

The Clinton administration was unwilling to recognize the costs to Russian democracy--and to Russian perceptions of America--of its unquestioning support for its Russian partners despite their corrupt conduct. The Clinton administration's enormous political stake in its Russian partners gave it an overwhelming incentive to ignore and suppress evidence of wrongdoing and failure by officials including Viktor Chernomyrdin and Anatoly Chubais, who had come to personify the administration's Russia policy. The Clinton administration's closeness to a few Russian individuals impaired its ability to confront genuine differences between U.S. and Russian interests--as, for example, in the case of Chechnya, where President Clinton compared Yeltsin to Abraham Lincoln.

The Clinton administration's exceptionally close personal relationship with its few official Russian partners was a sharp contrast with its merely *pro forma* engagement with Russia's legislature, its opposition parties, and its regional governments.

The Clinton administration encouraged disregard for the legislative branch by the Yeltsin administration, and thus played a part in undermining the growth of pluralistic, democratic government in Russia. This

has aptly been called a "bolshhevik" approach to accomplishing "reform"--authoritarian measures in both the political and economic spheres, typified by Yeltsin's propensity to rule by decree. It virtually guaranteed that the legal reforms needed to establish a genuine free enterprise system would not be enacted in the Duma or in the regional legislatures.

The Gore-Chernomyrdin Commission

In April 1993, during his first meeting with President Yeltsin, President Clinton effectively delegated the management of U.S.-Russian relations to Vice President Gore. The charter of the U.S.-Russia Commission on Economic and Technical Cooperation, co-chaired by Gore and Russian Prime Minister Viktor Chernomyrdin, was eventually expanded to include the full range of U.S.-Russia relations.

Clinton's abdication to Gore of authority over the most important foreign policy opportunity for America since World War II--the rebuilding of Russia after the collapse of the Soviet Union--had fateful consequences. By assigning this portfolio of overarching importance to his second-in-command--whose priorities were "reinventing government," environmental issues, and technology policy--Clinton guaranteed that Russia policy would receive only desultory attention.

The Gore-Chernomyrdin Commission's function and structure offered a perfect blueprint for the eventual failure of the entire Clinton administration policy toward Russia. By superseding normal policy making and well established intra- and inter-governmental channels of communication, the Gore-Chernomyrdin Commission would come to impede the information flow to decision makers in Washington. The Gore-Chernomyrdin Commission likewise distracted Russian government officials from what should have been their main focus: constructing the essential elements of a free enterprise economy.

The meager accomplishments of the Commission could hardly mask its fundamental failures. Russia even today lacks the most basic elements of a free market economy; the costs and delays from U.S.-Russian space cooperation (the initial project of the Commission) continued to escalate; the "privatization" of Russia's energy sector (another Commission priority) was becoming criminally corrupt; and Russia was accelerating its proliferation of dangerous technology. The Commission worked to divert attention from this string of major policy failures, and issued frequent proclamations of minor successes.

The Gore-Chernomyrdin Commission contributed to a deliberately uninformed U.S. policy toward Russia. It refused to acknowledge failure, and, even worse, celebrated failure as if it were success. The Clinton administration's dependence on the Gore-Chernomyrdin Commission, coupled with the Commission's refusal to listen to independent information, meant that administration Russia policy was both procedurally and substantively unsound.

'Bull**': Gore and Other Administration Policy Makers Systematically Ignore Evidence of Corruption of Their 'Partners'**

In 1995, CIA officials dispatched to the White House a secret report based upon the agency's large dossier documenting the corrupt practices of then-Russian Prime Minister Viktor Chernomyrdin. Chernomyrdin's private assets accumulated in his official position, according to Russian security

sources, ran into the billions of dollars. When the secret report on Chernomyrdin reached Vice President Gore, he refused to accept it. Instead, according to several CIA sources, he sent it back to the agency with the word "BULL*****" scrawled across it.

It is difficult to imagine a more dangerously intemperate reaction to official corruption in Russia. Yet this was hardly an isolated incident. The administration had ignored repeated earlier warnings of corruption by Chernomyrdin and other senior Russian officials. Several Clinton administration senior officials have stated publicly that, by 1995, they had received a number of reports from the CIA alleging corruption by Chernomyrdin, and that the CIA had submitted many other reports alleging corruption among other senior Russian leaders, including Clinton administration favorite Anatoly Chubais.

Gore's close personal relationship to Viktor Chernomyrdin--and not any superior intelligence that he possessed as Vice President--was obviously decisive in his emotional dismissal of the CIA intelligence report of Chernomyrdin's corruption. (While Gore has publicly denied the "bull*****" incident, he has also re-stated his harsh criticism of CIA reporting on Chernomyrdin's corruption.) This reflexive dismissal of corruption allegations against Viktor Chernomyrdin was all the more remarkable given contemporaneous Russian and U.S. media reports about Chernomyrdin's alleged corruption and continuing links to the Russian gas conglomerate Gazprom after his entry into government.

At precisely the same time that Gore was receiving reports of Chernomyrdin's corruption, the vice president was effusive in his public comments about Chernomyrdin, stating in June 1995 in Moscow: "Friends have a right to be proud of friends."

In this way, the Clinton administration--and Gore personally--contributed not only to the spread of corruption, but to Russia's failure to overcome it. Since Chernomyrdin served as prime minister for five years, it is clear that this embrace of corruption fundamentally compromised Russia's efforts at economic reform.

Vice President Gore has hedged his denial of the "bull*****" incident, saying "I don't think" that I "ever wrote a message of that kind." Moreover, while denying writing the word "bull****," Gore plainly referred to a *specific* CIA report, saying "whoever sent *that* over there [could not have] expected the White House to be impressed with *it* ... *it* was a very sloppy piece of work."

Other administration officials, defending Gore's position, dismissed the CIA reports of Chernomyrdin's corruption as lacking "conclusive proof." But agency reporting is necessarily based on intelligence sources, often covert. By conveniently demanding a "smoking gun" whenever they sought to suppress uncomfortable facts, Gore and other top Clinton administration officials established a rigged system that rejected "inconvenient" intelligence whenever it suited the preferences of the White House.

CIA officials have described the intelligence information concerning Chernomyrdin that was provided to Gore as "more detailed and conclusive than allegations of bribery and insider dealing that have been made in the Russian media and elsewhere." Yet when asked--as recently as July 2000--whether Chernomyrdin is corrupt, Gore replied: "I have no idea."

The Rise of Organized Crime

The Clinton administration's failed economic strategy for Russia and its tight embrace of corrupt

officials including Viktor Chernomyrdin had serious negative consequences for Russia's battle against organized crime.

The Clinton administration's failure to focus its full attention on replacing Communism with the basic legal elements of the free enterprise system helped create the conditions in which organized crime has flourished. Without such essentials as legislated protections for private property, a modern commercial code, and honest, efficient, and speedy courts to enforce property rights, the "privatization" of government entities in Russia predictably resulted in chaos.

Organized crime came to be responsible not only for grisly mayhem and violence, but also for functions as diverse as enforcing contracts and court judgments, providing personal security, and even allocating scarce resources (through bribes to corrupt officials). The ability of some Russian organized crime groups to draw upon the specialized expertise and contacts of former Soviet security personnel further increased their ability to compete with such legitimate law enforcement as existed, both in technological sophistication (in areas such as cyber-crime) and geographic reach.

The oligarchic economy, created with the advice and assistance of the Clinton administration, also tightened the stranglehold of official corruption over the Russian government and the large sector of the ostensibly "privatized" economy that it influenced. This official corruption both obstructed law enforcement and created a symbiotic relationship between corrupt government officials and organized crime, assisting them in laundering money and in the commission of other crimes.

The Clinton administration's decision to base U.S.-Russian relations on Vice President Gore's relationship with Viktor Chernomyrdin and a handful of other high officials sent a strong public signal that the United States would not only tolerate but embrace figures clearly identified in the Russian media and public consciousness with corruption--further undercutting law enforcement, and demoralizing not only the out-manned and underpaid Russian foes of organized crime, but also the Russian people.

Russia's rampant capital flight, estimated at as much as \$500 billion since Russian independence, is another serious consequence of corruption and organized crime. Even the most conservative estimates of capital flight demonstrate that the amount of money leaving Russia has far outstripped the money coming in from all sources--including foreign direct investment in Russia, Russia's soaring foreign debt, and direct Western aid to Russia.

The Clinton administration, prone to "spinning" bad news and ignoring its implications, has addressed both organized crime and capital flight superficially. The administration's efforts against organized crime have focused on modest technical assistance to Russian law enforcement and the creation of an FBI presence in Russia, in every case channeling that assistance through their Russian "partners" who were central to the corruption of the Russian government. By its own admission, the administration gave insufficient priority to Russian money laundering--as revealed by the Bank of New York scandal, involving the laundering of as much as \$10 billion.

The Clinton troika inferred from these phenomena no lessons about the consequences of its failure to promote the basic elements of a free enterprise economy to replace Communism.

1998: Years of Bad Advice Culminate in Russia's Total Economic Collapse

The culmination of the Clinton administration's fatally-flawed macroeconomic policy for Russia occurred in August 1998, when Russia's default on its debts and devaluation of the ruble led to the nation's total economic collapse. By all measurements, the disaster was worse than America's Crash of 1929.

The disaster that began on August 17, 1998, spread immediately throughout Russia. Millions of ordinary men and women who had deposited their money in Russian banks lost everything. ATM and debit cards ceased to work. Dozens of banks became insolvent and disappeared. Angry depositors besieged Russian banks, only to learn they had been wiped out.

Millions of senior citizens, whose meager pension income had been suspended for months, were cut off completely. When the dust finally settled in March 1999, the ruble--and with it, every Russian's life savings--had lost fully 75% of its value.

The devastation of Russia's economy was worse than what America experienced in the Great Depression. By 1932, the U.S. gross national product had been cut by almost one-third. But within just six months of the 1998 crash, Russia's economy, measured in dollars, had fallen by more than two-thirds. From \$422 billion in 1997, Russia's gross domestic product fell to only \$132 billion by the end of 1998.

At the end of 1929, following America's disastrous stock market crash, unemployment in the United States reached 1.5 million, representing 1.2% of the total population. The 1998 collapse of the Russian economy was far worse: 11.3 million Russians were jobless at the end of 1998--7.7% of the nation's total population.

In the Crash of 1929, stock prices fell 17% by year end--and 90% by the depth of the Great Depression four years later. By contrast, the Russian stock market lost 90% of its value in 1998 alone.

"Most fundamentally," said Sergei Markov, an analyst at the Institute of Political Studies, "it is a crisis of the real economy--Russia doesn't work."

Foreign investment in Russia plummeted from \$4 billion in 1997 to \$1.7 billion in 1998. The collapse of international trade not only curtailed the supply of foreign goods, but also created scarcities and high prices for Russian-made goods with foreign components. Drugs and medicines, always in short supply, became even more difficult to come by. Shortages of meat and cooking oil were so severe that humanitarian food aid from the West, which had not been necessary since the collapse of Communism, was resumed on emergency basis.

The lack of a reliable currency reduced much of Russia to a barter economy.

The 1998 economic collapse also accelerated Russia's deepening social pathologies. Russia's population, which has fallen every year since 1992, shrunk at an accelerated pace as deaths outnumbered births by 784,000 in 1999, the year following the crash. The economic hardship of raising a child further inflated Russia's sky-high abortion rates: for every birth in Russia, there are now two abortions. Drug use and addiction in Russia have skyrocketed, fueled by the growth in organized crime and widespread economic depression.

Alcoholism, a chronic problem in Russia, has grown worse as economic conditions have worsened: according to a January 2000 report, the number of deaths resulting from alcohol poisoning is over 100 times that in the United States.

The jump in drug use has also led to an increase in HIV infections. Drug addicts account for 90% of all HIV-infected people in Russia. The collapse of the Russian economy in 1998 coincided with a massive increase in the number of people living with HIV. Russia's HIV population literally doubled between 1997 and 1999--the fastest growth rate in the world.

The road to this crisis had been littered with warning signs that the Clinton administration ignored for years. The U.S. encouragement of increasingly massive loans to the Russian central government from the IMF continued despite the lack of basic free market legislation in place to justify it. With no market in banking services, no reliable protection for private property rights, no mortgage lending, and no commercial dispute resolution, capital flight--fueled by IMF hard currency--approached 10% of Russia's gross domestic product.

Russia's heavy reliance on borrowing to finance its annual operations caused investors to demand exorbitant premiums to hold Russian debt. The government offered ever-higher interest rates--at times approaching 250%. The process was unsustainable. In a full-blown Ponzi scheme, new higher-interest Russian bonds were issued to pay interest on old bonds. By mid-1998 some 30% of Russia's budgetary outlays were devoted to debt service.

As they had for five years, the Clinton administration and its tight policy clique miscalculated the effects of their policies and closed their eyes to the consequences. On July 28, 1998, Treasury Secretary Robert Rubin wrote to then-House Speaker Newt Gingrich that the Russian government could now be expected to "finally take the myriad steps needed to put its finances on a sustainable path." The same day, Stanley Fischer, the IMF's Deputy Managing Director, insisted: "The pressure is off the ruble."

In early August 1998, President Clinton was concerned about his scheduled September 1998 summit with Yeltsin. The White House dispatched a Treasury Department official to Moscow "to ensure that the show stays on the road for the next three weeks at least."

On Monday, August 17, the Russian government formally declared its insolvency, and the horrific economic consequences rapidly followed. The Clinton troika strategy of massive lending to the central government as a substitute for the construction of a free enterprise system in Russia had proved an error of historic proportions.

The administration had, in effect, hijacked the IMF to implement its economic strategy, and the IMF debt, far from solving Russia's problems, had exacerbated its difficulties. But despite having engineered the entire series of loans that contributed to Russia's complete economic collapse, the Clinton administration immediately attempted to distance itself from the fiasco. "It was the Russians' choice," said one Clinton administration official.

Few in Russia accepted this version of events. Many Russians, not surprisingly, blamed the West, the IMF, and the United States for intentionally leading Russia down the path of ruin. The heavy-handed and wrong-headed involvement of Clinton administration officials in Russian government economic policy made America an easy scapegoat for disgruntled Russians. Since the beginning of the Clinton administration, U.S. officials had urged a steady diet of borrowing to mask the Russian economy's fundamental weaknesses--prolonging and deepening the eventual collapse.

Russia's economic collapse in August 1998, after six years of American advice and scores of billions in Western aid, shattered the last illusions in both Russia and the West that a free market and prosperity were making slow but steady progress in Russia. It marked the final bankruptcy of the Clinton

administration's economic strategy of macroeconomic "stabilization" and massive aid inflows, and contributed to the discrediting of American advice and institutions within Russia.

The effects of the complete collapse of the Russian economy in August 1998 were profound. They are still being felt today.

Weapons Proliferation Feeds a Corrupt and Cash-Starved System

The failure of the Clinton administration's economic strategy for Russia has had profound implications for Russia's policy on proliferation of weapons and technology, and therefore for America's national security interests.

Between 1992 and 1999, the Russian economy contracted 25%. Currently, 13.3% of the labor force is officially unemployed, compared with only 4.8% in 1992. The complete collapse of Russia's economy in 1998 saw industrial and agricultural output drop sharply. Investment in Russia suffered as capital flight crippled the private sector. These increasingly severe financial pressures, coupled with a paucity of alternate sources of much-needed hard currency, tempted the Russian government to both legal and illegal weapons sales as a way out.

Russia's failure to create a working free enterprise system likewise stalled conversion of the military sector of the economy. In Soviet days, the one industry in which Russia enjoyed a true comparative advantage in global markets was its military hardware, weaponry, and related technologies. When the Soviet Union collapsed in 1991, Russia inherited a massive infrastructure devoted to the development and production of weapons. Despite the 1992 beginnings of downsizing in the former Soviet military-industrial complex, much of that infrastructure remains in Russia.

The decline in Russian military spending and the general failure of Russia's economy during the Clinton-Yeltsin years meant that this immense military-industrial complex faced urgent incentives to sell as much as possible as quickly as possible, often irrespective of the long-term implications for Russia's own security.

At some former research facilities, fully half of the scientific personnel had been laid off by the fall of 1995, but the Russian economy could not absorb them. As a result, individual officers, bureaucrats, and scientists, whole research facilities, design bureaus, ministries and even the central government had economic incentives to sell extraordinarily-sensitive weapons and technology to any nation or groups that would buy them.

To many in the Russian government, exporting such hugely valuable contraband seemed to solve several problems. It would generate hard currency; it would utilize existing Russian assets; and it would put possibly hundreds of thousands of unemployed Russians back to work. For the many Russians increasingly involved in organized crime, there was yet another benefit: the opportunity for significant personal wealth.

Official Russian policy was eventually brought into line with these expedients. Under the rubric of "strengthening multipolarity," the avowed purpose of the new Russian consensus on foreign policy and national security is to increase the strength of global forces arrayed against the United States. This consensus helps allay any concerns that Russian officials, scientists, and businessmen might have about

transferring weapons or military technology to such countries as Iran, Iraq, North Korea, Libya, and the PRC.

President Putin recently amended Yeltsin's 1992 decree limiting Russian nuclear assistance to countries whose nuclear programs are not fully monitored by the International Atomic Energy Agency, including Iran and North Korea. When Russia's national interest is understood to be strengthened by weakening the United States, the Russian military-industrial complex can do well by doing good.

The Clinton administration's culpability for this proliferation extends considerably beyond helping to create the economic prerequisites for it. The administration has consistently de-emphasized proliferation in its discussions with Russia--ignoring credible American and Israeli evidence of proliferation, accepting Russian assurances that were patently not credible, and strongly opposing bipartisan Congressional efforts to take a stronger stand against proliferation.

This has been particularly true of Vice President Gore's stewardship of the issue of Russian proliferation to Iran. In fact, Congress' efforts to combat Russian proliferation to Iran have drawn far more vocal opposition from the administration than the dangerous spread of weapons that Congress seeks to address. The administration has been compromised from the outset by an unwillingness to admit that its anointed Russian "partners" might have been dishonest in their assurances, or unwilling to live up to their commitments, that weapons proliferation would stop.

From Friendship to Cold Peace: The Decline of U.S.-Russia Relations During the 1990s

Eight years ago, when President Clinton took office, the stated objective of the Russian government was a formal alliance with the United States. Russia pursued a strongly pro-American foreign policy, and the United States enjoyed unprecedented affection and admiration among ordinary Russians. Today, the United States' relationship with Russia has been shattered.

Where 70% of Russians held a favorable view of the United States when President Clinton took office, 37% hold such views today. More than 80% of Russians polled by the U.S. government in February 2000 thought that the United States was seeking to weaken Russia, while 85% believed that the United States sought world domination.

The quality of the economic advice that the Clinton administration has offered to Russia has been so bad, and its results so dismal, that 81% of Russians believe it was purposely designed to make Russia a second-rate power. President Clinton himself has become one of the most unpopular international figures in Russia, second only to Saddam Hussein in some polling.

These negative views of America have grown steadily worse throughout the course of the Clinton administration, and are shared by all levels of Russian society and by all age groups. As a result, ordinary Russians today are now working up hostility toward the United States, a phenomenon decades of Soviet propaganda had been unable to achieve during the Cold War.

The collapse of American prestige in Russia has been largely caused by the failure of what Russians perceive as the "American model" of economic and political reform--that is, the policy advice proffered by the Clinton administration. Russians find evidence of this failure all around them. Russia today is

more corrupt, more lawless, less democratic, poorer, and more unstable than it was when President Clinton and Vice President Gore took office--a society some Russian and American observers chillingly describe as "Weimar Russia."

The political and policy vacuum created by this failure has empowered some of the most retrograde, anti-American elements of the Russian foreign policy and military establishments. Many of their views have lately entered the mainstream of official Russian thinking. As a result, the Russian government today works against American foreign and defense policy around the world, often at the expense of Russia's own long-term interests. In concert with a rogue's gallery of rivals and enemies of the United States, Russia is today maintaining its intelligence relationship with Castro and its listening post at Lourdes, Cuba; working with Beijing to renew both political and military ties with the pariah regimes in Iraq, North Korea, and Libya; and cultivating the Milosevic dictatorship in Belgrade.

Eight years after Russia announced its pursuit of a formal alliance with the United States, Russian foreign policy has retrogressed toward that of the pre-*perestroika* Cold War period. Whereas Presidents Yeltsin and Bush had agreed to pursue amending the ABM Treaty to take into account the proliferation of ballistic missiles, the Russian government has recently stated that U.S. failure to observe the treaty as the linchpin of our mutual security will cause Russia to renew the nuclear threat to Europe. Moscow has also threatened to deploy multiple warheads on its Topol intercontinental ballistic missiles (in violation of the Bush-Yeltsin START II agreement) as part of its "asymmetrical" response to the U.S. position that the ABM Treaty is outdated.

Russia is simultaneously continuing the very proliferant activities that have made a U.S. missile defense essential. As recently as June 2000, just weeks before President Putin's visit to North Korea, missile component companies in Russia and Uzbekistan were reportedly collaborating to sell North Korea a special aluminum alloy for missile manufacture, laser gyroscopes used in missile guidance, and connectors and relays used in missile electronics.

The Russian government has intensified its opposition to NATO enlargement, and zealously seeks to weaken ties between the United States and NATO Europe. Recent Russian policy has revived Soviet-era proposals to substitute a pan-European collective security structure for the current alliance-based security system.

A more troubling contrast to the atmosphere of the early 1990s could hardly be imagined. Yet, confronted with the consequences of its policies, the Clinton administration has applauded itself for having avoided an even worse scenario such as a Soviet Communist restoration, a military dictatorship, or nuclear war. That is a remarkably inadequate vision of what could have been made of the most significant opportunity in this century for Russia, and the greatest foreign policy opportunity for the United States since World War II.

'The Enemy of My Enemy Is My Friend': Russia Emerges as a Strategic Partner of the People's Republic of China

Although the Clinton administration has long boasted of its "strategic partnership" with Russia, the Russian government unmistakably disavowed any such relationship in its authoritative *Foreign Policy Concept*, approved by President Putin in June 2000. The *Foreign Policy Concept* flatly states that "certain plans relating to establishing new, equitable, and mutually advantageous partnership relations of

Russia with the rest of the world"--plans embodied in the 1993 version of the *Concept* approved as President Clinton was taking office--"have not been justified."

Instead, the June 2000 *Concept* lists first among the threats to Russia "a growing trend towards the establishment of a unipolar structure of the world with the economic and power domination of the United States." To challenge America's dominance, Russia today cultivates its strategic partnership with the People's Republic of China--a partnership explicitly targeting American policies and interests around the globe, and founded on increasing both the PRC's and Russia's military capabilities against the United States. This is in stark contrast to Russia's explicitly seeking an alliance and missile defense cooperation with Washington in 1992.

Russia and the PRC have rapidly increased the level of their cooperation in opposing American plans for national and theater missile defense, NATO enlargement, U.S. security cooperation with Taiwan, and U.S. opposition to the North Korean missile program.

Even more troubling is the dramatically increasing scale and sophistication of Russian arms and technology transfers to the PRC: *Sovremenny*-class destroyers equipped with Moskit surface-to-surface missiles, state-of-the-art weapons systems specifically designed to destroy U.S. aircraft carriers; ultra-quiet *Kilo*-class diesel submarines; Su-30 long-range attack aircraft and MiG-31 long-range fighter-interceptors; AWACS radar systems; T-80U tanks; state-of-the-art Russian surface-to-air missiles; and rocket engines, as well as many other weapons systems and technologies. Negotiations are reportedly underway for still more sophisticated weapons systems and technology. There are also reports of far-reaching Russian military commitments to the PRC in the event of hostilities over Taiwan.

After tens of billions of dollars in Western assistance and eight years of mismanagement by the Clinton administration, the U.S.-Russian relationship is in tatters, characterized by deep and growing hostility and divergent perceptions of international realities and intentions. The Sino-Russian relationship, by contrast, has grown steadily stronger, and has steadily assumed a more overtly anti-American aspect.

Because of Russia's current and future importance, the consequences of this failure are difficult to overstate, and almost certainly exceed the consequences of the American defeat in Vietnam and the fall of the pro-American government in Iran. To find a foreign policy failure of comparable scope and significance, it would be necessary to imagine that after eight years of American effort and billions of dollars of Marshall Plan aid, public opinion in Western Europe had become solidly anti-American, and Western European governments were vigorously collaborating in a "strategic partnership" directed against the United States.

Despite Years of Policy Failure, a Bright Russian Future Is Still Possible

The task ahead for Russia in 2000 is essentially the same as it was in 1992. Since so little progress has been made toward putting in place the building blocks of a free enterprise economy, that work must now begin in earnest. But whereas conditions in Russia in 1992 were eminently hospitable to such an undertaking, the ensuing years of policy failure have squandered that advantage. Now, with so many Russians having soured on "reform," the necessary work will be much more difficult.

Despite the dimensions of the task ahead, the outlook for Russia is not entirely bleak. The economic collapse of 1998, while devastating, has given way to a determined effort to dig out from beneath the

rubble and start afresh. The hostility engendered by the statist, incoherent, and clumsily-administered Clinton administration foreign policy need not create an enduring cold peace.

The slow economic progress that began in 1999 has gained some momentum in 2000. The Russian government reported in July 2000 that the economy was growing at an annual rate of 7.3% during the first six months, while output from January to June rose 8.6%. Fueled by strong energy exports, Russia's trade surplus reached \$27 billion for the first five months of this year.

Importantly, the Russian government is using the breathing room created by high oil prices to implement much-needed tax simplification and government spending reductions. After President Boris Yeltsin's December 1999 resignation, Russia's Center for Strategic Research was tasked with drafting an economic reform program for the incoming Putin government. The Center released its report in June 2000, which emphasized:

- * Reducing government spending
- * Balancing the central government's budget
- * Eliminating many state subsidies
- * Implementing a 13% flat income tax

President Putin signed the flat tax into law on August 7, 2000, calling it "the most important event in the country's life."

Amidst these signs of slow economic recovery, foreign investment is tentatively trending toward pre-August 1998 levels. More than \$10 billion in foreign capital has entered Russia during the first five months of 2000--twice as much as during all of 1999.

Russia has other inherent assets that were not wiped out by the economic collapse of 1998, nor erased by decades of Soviet Communism. For example, a silver lining to the Soviet state's lack of academic freedom was its focus on training scientists and specialists. The high level of education and skills in these areas among much of the Russian workforce is an asset that Russia still possesses intact.

Perhaps most important for Russia's future is that young Russians are significantly more supportive of democracy and free enterprise than their older countrymen. The younger generation in Russia--less influenced by the legacy of Soviet Communism than its parents--displays an entrepreneurial spirit unknown in Soviet days. Remarkably, three-quarters of 18-29 year olds believe that it is important "to achieve success with a business of their own." This energy and vigor can transform Russian society and Russia's economic future, if it is not indefinitely stifled by current government impediments to the market.

Religious faith has sharply increased since the collapse of the Soviet Union. As one sociologist noted, "in a remarkably brief period of time, Russia has become one of the most God-believing countries in Europe." Interestingly, the revival of faith in Russia is concentrated among the young and the educated.

Despite the Soviet legacy of outlawing private civic organizations, a number of civic groups have been founded in recent years. The number of human rights organizations has grown from 50 in 1996 to over 1,200 in 1999. According to the U.S. Agency for International Development, there are now approximately 65,000 active civic and social groups of all kinds in Russia.

Russia's rich culture, which ties its people together and is universally admired, also provides a base upon which the nation is building anew today.

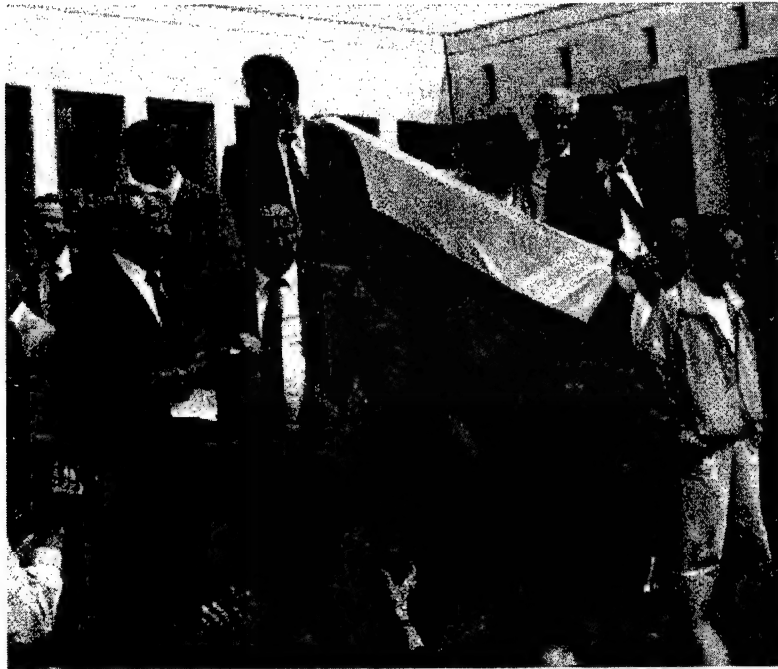
The successful elevation of Vladimir Putin to the Russian presidency is widely attributed to the public longing for order after a decade of chaos. But despite the unmistakable public clamor for a crackdown on crime and corruption, public opinion surveys show that a majority of Russians are not prepared to give up their most cherished and hard-won liberties. An August 1999 U.S. Information Agency survey found that 73% of respondents opposed loosening restrictions on police and security forces, 66% opposed banning meetings and demonstrations, 62% opposed canceling elections, and 53% opposed media censorship.

Russia is a great nation, and must eventually determine its own course. If it is to successfully make the transition from nearly a century of Communism to a free enterprise democracy built upon individual decision making and individual rights, it will be because of the determination of Russia's people to do so. As the world's leading free enterprise democracy, the United States offers the quintessential model for Russia's future, if Russia chooses freedom. It was in 1992, and is now, America's opportunity--if not our duty--to respond.

America and Russia have lost a decade. The growing estrangement of Russia from the United States, the hostility to American interests reflected in Russia's foreign policy, and the telltale signs of authoritarianism in the post-Yeltsin era provide ample evidence that Russia faces a more formidable task because U.S. foreign policy was weak, and did not lead. But it is not too late for the United States to stop impeding and start assisting the transition from Communism to free markets, from authoritarianism to democracy, and from disorder to order. It simply requires that we begin anew--but this time, with a clear purpose.

CHAPTER 1

1991: THE FALL OF THE SOVIET UNION AND THE RISE OF RUSSIA



STANDING UP FOR FREEDOM: Russian Federation President Boris Yeltsin stood atop an armored personnel carrier in Moscow Aug. 19, 1991, to urge Russians to resist a central government takeover by Soviet hardliners. Russians proved their courage and their love for freedom in 1991, ending Soviet domination in Eurasia with a peaceful determination that stood in stark contrast to the terror imposed on them for seven decades. AP Photo

I've met with business people and leaders of the republics and reformers at all levels, and in spite of the vast array of challenges before you, a deep undercurrent of enduring optimism runs here. The forces of reform, the drive toward democratization, political pluralism, market economies--all offer real hope for lasting stability and prosperity.

We seek to unleash the energy and ambition of the individual in the service of a greater good. We believe that while men and women may for a time be intimidated by force, mankind finds inspiration in freedom. So if, as Chekhov once wrote, man is what he believes, let us believe in freedom.

On Christmas Day, 1991, the Soviet Union ended. The people of Russia had made it clear they were prepared to build the truly free society that Gorbachev could not achieve. The Soviet Union lost the Cold War, but Russia had won it.

The collapse of the Soviet Union brought to an end, with surprisingly few casualties, one of the cruelest, most violent, least humane, and most viciously ideological régimes in the history of the world. The Soviet Union—more aptly, the Soviet Empire—collapsed of its own weight, crushed by the material and spiritual burdens of its collectivist ideology.

A Titanic Clash Over the Budget

On January 3, 1991, Mikhail Gorbachev, President of the Union of Soviet Socialist Republics and General Secretary of the Communist Party Central Committee, announced on state-controlled Soviet television that the empire's ritual budget deliberations were completed. "Solutions were worked out that made it possible to hold a session of the Federation Council today and to coordinate the basic provisions of an economic agreement," Gorbachev said.¹

But this time, the General Secretary's decree was not routinely accepted. In what the state-controlled news agency TASS called the "mutiny" of Russia, the largest of the Soviet Union's 15 republics refused to contribute its "required sum" to its putative Soviet masters.² The President of the Russian Republic, Boris N. Yeltsin, was defiant.

And so, the opening scene in the world-shaking drama of 1991, the final year of the Soviet empire, began with a fight over money.

The dispute between Yeltsin and Gorbachev was not new, and it was personal as well as ideological. On July 12, 1990, Yeltsin had resigned from the Communist Party "because processes in the party are too slow, because the party is still lagging behind, because the process of democratization in the party does not develop, [and] because the style and method of work are behind those processes of *perestroika*."³ Yeltsin, moreover, had openly defied the U.S.S.R.'s claim of sovereignty over the Baltic states of Lithuania, Latvia, and Estonia. And he had mounted a withering attack on Gorbachev's *perestroika* reform effort as insufficient.

But beyond these policy differences, Yeltsin resented his constant humiliation by Gorbachev, beginning at the Communist Party's October 1987 Plenum, when Yeltsin was expelled from the Politburo. In his memoirs, Yeltsin wrote that "the motivations for many of my actions were embedded in our conflict."⁴

Tanks to Vilnius

Riots and uprisings in Azerbaijan⁵ and Georgia,⁶ the war between Armenia and Azerbaijan over the Nagorno-Karabakh enclave, and moves to restore the independence of the Baltic nations threatened to

tear the U.S.S.R. apart. Over the course of 1990, nationalist sentiments in the republics matured from disparate popular movements to a central fact of political power. Leaders of popular groups took control of legislatures from the Baltics in the north to the Transcaucasus in the south.

In an eight-month period during 1990, legislatures in every republic, beginning with Lithuania and ending with Kirghizia (now the Kyrgyz Republic), declared their sovereignty or outright independence. The cries "To a free Estonia!" and "To a free Latvia!" by Lithuanian crowds rejoicing at their legislature's vote for independence from Moscow testified to the snowballing effect of the independence movements.

Although Gorbachev assured the Federation Council that he would not use force to rein in the independence movement, within hours of his statement Soviet special police forces opened fire on pro-independence Lithuanian demonstrators in Vilnius, killing 15 and wounding hundreds more. A week later, Soviet forces killed four civilian protesters in Latvia.

Yeltsin, meanwhile, was taking up the cause of Baltic freedom. He signed a mutual security agreement with representatives of the three Baltic States in which the parties pledged to respect one another's sovereignty, and-importantly-to provide assistance in the event the Soviet central government resorted to force.

The Soviet crackdown in Vilnius, known as "Bloody Sunday," proved a turning point.⁷ In the past, Soviet state control of the media could suppress the facts sufficiently to maintain order. But the January 13 bloodbath in Vilnius led to protests by 100,000 citizens in the streets of Moscow and sent Gorbachev's approval rating from 29% to less than 10%-dangerous even for a Soviet ruler, and especially so when a powerful rival in the form of the Russian president presented himself as an alternative.⁸



BRINGING DOWN THE KGB: Russians celebrate their newfound freedoms by toppling the statue of KGB founder Felix Edmundovich Dzerzhinsky, early Friday, Aug. 23, 1991, in front of the KGB headquarters in Moscow. AP Photo/Alexander Zemlianichenko

The KGB and 'Economic Sabotage'

Gorbachev reacted by tightening the reins. A month before the violence in the Baltics, Foreign Minister Eduard Shevardnadze resigned, warning of a coming dictatorship. On January 26, 1991, Gorbachev issued a decree giving the KGB and the MVD (the Soviet Interior Ministry) wide-ranging powers to investigate "economic sabotage"-an ideological crackdown on unauthorized economic reforms and privatization then underway.

The move was intended to shore up support among Communist critics of *perestroika*-Gorbachev's ambitious plan to restructure the Soviet economy and modernize Communism-but it had the opposite effect. The already demoralized security forces saw their role being trivialized. Instead of protecting the nation, they were being asked to monitor white-collar crime and rifle through desk drawers.

The decree's retreat to criticism of "selfish interests" seems in retrospect to have been a dying gasp of Marxist economics. Certainly, the January 1991 edict to the KGB and MVD exemplified the inherent weakness of Gorbachev's *perestroika*, which was doomed to failure because it intended not to supplant Communist economic doctrine, but to make it work, somehow. Thus, despite the genuineness of the policy of *glasnost*, or openness-which, at least relative to previous Soviet regimes, allowed some modest new freedom of speech and thought-*perestroika* amounted to little more than fiddling while Rome burned.

Two years before the collapse of the Soviet Empire, in 1989, American economist Judy Shelton had confidently predicted the collapse of the Soviet Union.⁹ By 1991, it was even clearer that the Soviet Union did not have sufficient domestic resources to deal with its aging factories, increasing shortages, and impending famine.¹⁰

Although the official Soviet Bank for Foreign Economic Affairs had met all its immediate obligations, the Soviet Union had built up substantial arrears to Western suppliers through its foreign trade organizations, ministries, and state-controlled enterprises. Contemporaneous Western estimates put the default in the range of billions of dollars. To disguise this economic disarray, the Soviet government kept two sets of books: public books to deceive outside lenders, and private books that alerted Gorbachev to serious cash shortages.

Thus, the collapse of the Soviet economy was not the result of "economic sabotage," but of the inherent weaknesses of the Communist system itself. In unintended acknowledgement of this fact, Gorbachev in the final days of the Soviet Union turned to capitalist-supported international lending programs for assistance.

German banks-with a 90% guarantee by the German government-financed a loan to repay arrears to German companies. In another turn toward capitalism for help, De Beers Consolidated Mines provided a \$1 billion loan using Soviet diamonds for collateral.

In the end, however, international lending did no more than unnaturally extend the life of the terminally sick Soviet system. It did no more to address the fundamental problems of the state-controlled Communist economy than did the decree broadening powers for the KGB and the MVD.



STORAGE: The statue of the KGB founder stands in a museum storage yard in downtown Moscow, April 16, 2000. The President Hotel is in the background. SAGR Photo

Lithuania Votes for Freedom

On Thursday, February 7, 1991, three days before Lithuanians went to the polls to cast their ballots on the issue of independence, Soviet military officials announced ten days of maneuvers in Lithuania, Latvia, and Estonia.¹¹ Despite the military presence, the yellow, green and red Lithuanian flag was defiantly flown, and posters bearing gruesome pictures of the Bloody Sunday attack appeared everywhere. On election day, Sajudis, the anti-Soviet independence and human rights movement, won overwhelmingly.¹² One month later, Vytautas Landsbergis, a mild-mannered university music professor who had spent years in Soviet prisons, became President. It was "a victory against lies, against attempts to scare us, against fear," President Landsbergis said in a televised message.¹³

Taxes, Strikes, and Sovereignty

March 1991 brought strikes-not only for wages, but openly and defiantly for Gorbachev's resignation. Coal miners and demonstrators in Moscow, Leningrad, and across Russia demonstrated in support of Yeltsin.

In the midst of this strife, a referendum, organized by Gorbachev and opposed by Yeltsin, showed that 75% of the people, including 71% of Russians, favored the continued existence of a union of republics. But because the referendum framed its object as a federation of *sovereign* states intended to protect "the rights and freedoms of all nationalities," it attracted the votes of many whose sympathies were with Yeltsin-and ultimately settled nothing.¹⁴

Gorbachev sought to remedy the central government's financial collapse, including its inability to meet

external debt obligations, by levying new taxes.¹⁵ What came to be known as the "presidential tax," an additional 5% sales tax on goods, infuriated Russian consumers, already outraged by shortages of most necessities. "Did you read this list?" the *New York Times* quoted a burly Muscovite as saying about the schedule of commodities to which the new tax would apply. "It looks like someone went into a store and made an inventory of all the things he couldn't find."¹⁶

Yeltsin pounced on the sales tax issue, urging repeal and agreeing to support Gorbachev's "Anti-Crisis" economic plan only in exchange for elimination of the tax.¹⁷

Soviet taxes, Soviet labor controls, and Soviet central control over the people and affairs of every one of the Republics were completing the century-long destruction of the Russian economy. Neither *glasnost* nor perestroika had even really addressed them.

Secession Momentum

On April 9, the Soviet republic of Georgia formally declared its independence from the Kremlin.¹⁸ The Georgian people completed this act in defiance of their Communist rulers by dancing in the streets.¹⁹ A rally originally scheduled to mourn the deaths of 20 civilians killed by Soviet troops in the 1989 Tbilisi Massacre²⁰ (a tragedy contemporaneous with the Chinese Communist Party's Tiananmen Massacre) spontaneously became an independence celebration. The demonstration came 10 days after balloting in which nearly 99% of Georgians had voted for secession from the Soviet Union.²¹

The appetite of the peoples of the various Republics, including the Russians, to manage their own affairs was far ahead of Gorbachev's extremely limited promises.²² Momentum for secession thus grew in Russia as elsewhere in the Soviet Union.

By the end of April, Gorbachev agreed to meet with Russian President Yeltsin and the leaders of nine Slavic and Muslim republics in a village outside Moscow. According to contemporaneous accounts, a visibly changed Gorbachev for the first time showed a willingness to listen to grievances.²³ And, sensing his weakening grasp on power, Gorbachev responded to critics at a plenary meeting of the Communist Party Central Committee two days later by offering to resign. The offer was rejected.

Yeltsin and Coal

Gorbachev's motivation for ceding ground to his political antagonists was primarily economic. Communist central economic planning had left the Soviet Union starved for cash.

Oil, which accounted for 60% of export revenues, was becoming costlier to produce as Soviet engineers, operating on short-term Communist Party commands to increase immediate production, turned to recovery techniques that wasted oil and damaged pipelines.²⁴ Disorder and mismanagement in the oil industry, as a result of Gorbachev's failed economic reforms, compounded the problem. Strikes and martial law in Azerbaijan, the main supplier of oil-producing equipment, left the Siberian oil fields short of spare parts.²⁵

Falling oil production not only hurt Soviet exports, but also created enormous pressure to increase coal

production. But the coal industry, too, was plagued with strikes. Over the course of 1990, the Soviet system was starved of coal by major mine strikes that escalated into rampant unrest in the Donetsk and Western Siberian coal fields.

Still other problems conspired to make matters worse. The notoriously inadequate Soviet computers failed to keep track of rolling stock and warehouse inventories, with the result that thousands of freight cars filled with coal, fuel, food, and other commodities were stolen or more often lost and left to rot.

The resulting energy shortages provoked further unrest among both the miners and the general population. Yeltsin, who had supported the miners against the dictatorial control of the Soviet "center" in Moscow, seized on these events to obtain concessions from Gorbachev. In return for a transfer of the mines to Russian control, he would end the strike by decree.

Gorbachev was forced to concede. On May 1, Yeltsin asserted his authority over Russian coal mines, and a month later the strikes were over.²⁶

This significant addition to the sovereignty of Russia at the expense of the Soviet Union signaled another major crack in the foundations of the Empire. As one writer noted at the time:

Yeltsin's handling of the miners' strike is further evidence that he will use his truce with Gorbachev to advantage.

Some liberals worried that their boss might have been maneuvered into opposing the strikers by the crafty Gorbachev. (The myth of this man's political genius dies hard!) Instead, Yeltsin made his support for the strikers a bargaining chip to force Gorbachev to cede control of the mines to the Russian republic.

The coal pits are not exactly the jewel in the crown of Soviet mineral wealth, but their transfer to local ownership will begin the breakup of the central government's monopoly control of exportable natural resources.

Coal today; oil tomorrow. At some point people will have to stop saying that 'opposition' forces are too weak to run the country; they will be running it.²⁷

The Vote for Russian Sovereignty

On June 13, 1990, a year before the people of Russia elected him to the newly created office of president, Boris Yeltsin had told the parliament of the Russian Federation, "Russia cannot survive without the country [i.e., the Soviet Union] and the country also cannot survive without Russia."²⁸

The emphasis was on the indispensability of Russia, for in that same week in June 1990, at Yeltsin's urging, the Russian parliament adopted a formal declaration of the sovereignty of the Russian republic, which asserted that Russian law would now take precedence over Soviet law, by a vote of 907-13.²⁹

Throughout the Russian Republic, Yeltsin actively courted regional leaders, at one point telling them to "take as much sovereignty as you can stomach."³⁰ He encouraged leaders in the U.S.S.R.'s other republics to seek autonomy from the "center." His aim was to outflank and undermine the central

government and to increase his appeal to local officials.

The Russian sovereignty declaration was a watershed. "Of course," one prescient U.S. newspaper observed, "Gorbachev's Soviet Union still controls the organs of terror, the Red Army and the KGB. But he may realize he cannot prevent the breakup of the Soviet 'Union' and that his 'federation' idea, perhaps resembling the European Economic Community/NATO or the British Commonwealth, is his only hope for maintaining any position at all."³¹

The Russian parliament's near-unanimous vote for sovereignty and Yeltsin's campaigning had emboldened leaders in other republics, particularly the Baltic states. Similar sovereignty measures had followed in other republics within months.

Now, a year later in 1991, support for Yeltsin-and opposition to Communism-was overwhelming. Yeltsin was swept to a decisive victory as the first popularly elected president in Russia's history in June 1991, as Leningrad voted to restore the city's historical name of St. Petersburg in a stinging repudiation of Vladimir Lenin, the ultimate icon of Soviet Communism.³² The new mayor of this city of five million, Anatoly Sobchak, won his post in the same election, and would soon become one of the leading Russian reformers.³³ Sobchak appointed as one of his deputies a young, unknown former KGB agent named Vladimir Putin.

Supreme Soviet 'Privatization'

Meanwhile Gorbachev and the old guard were struggling to keep up with events. On July 1, 1991, the Supreme Soviet approved, for the first time, a law authorizing the sale of state assets.³⁴ This step, though unprecedented, represented less free-market reform than a desperate attempt to generate cash for the crumbling Soviet system. Not only was it unsuccessful in raising money for the state, but it was soon taken hostage by the Communist *nomenklatura*, the privileged ruling elite. The state assets they sought to auction-to themselves-were dachas or private resorts.

"In one of the juiciest scandals to touch President Mikhail S. Gorbachev's administration," the *Los Angeles Times* reported, "the Soviet press and a legislative watchdog commission are accusing top officials of using their pull to buy government-owned dachas and their lavish furnishings at bargain-basement prices."³⁵ This Communist insider dealing was a harbinger of things to come. The dacha scandal, the *Times* reported, encouraged suspicions "that when the time comes to sell state property to private buyers, only the well-connected will really have the chance to buy."³⁶

Neither scandal nor shame would quell the Soviet appetite for cash-Gorbachev sought \$20 billion from the Japanese alone; he asked for \$100 billion in Western aid. Harvard economist Jeffrey Sachs suggested \$150 billion for a five-year plan.³⁷

President Bush knew that such schemes would not work. "A shortage of foreign capital is not what plunged your economy into crisis, nor can your economic ills be cured by an infusion of cash," he told the Moscow State Institute for International Relations in a speech July 31.³⁸ Instead of government-to-government aid, President Bush said, the Soviet Union and the United States should facilitate business-to-business dealings between private individuals and firms.³⁹

It soon became clear, however, that real reform of the Soviet economy was impossible as long as the

Soviet structure survived. On July 11, *Izvestiya* published the text of the latest Soviet "reform" plan. The program correctly cataloged the economy's ills:

The socio-economic situation in the country has become extremely acute. The fall in production has affected virtually all sectors of the national economy. The finance and credit system is in a state of crisis.

Exports and foreign currency earnings are falling. The consumer market is disorganized, the food shortage is being felt everywhere and the population's living conditions have deteriorated considerably.⁴⁰

But Gorbachev's proposed remedies called for more of the same: government action to restore production volume, "targeted measures" to "normalize" the supply of consumer items, and "a Union-Republic program of support for entrepreneurial activity"-a concept as oxymoronic as a U.S.S.R. federation of "sovereign states."⁴¹ While the program reflected an attempt to move away from statist economics, it fell far short of meeting the prerequisites for beginning the necessary transformation to a market economy.⁴²

The Coup Attempt

Increasingly concerned by Gorbachev's inability to deal effectively with what they correctly saw as a fundamental threat to the survival of the Soviet Union-and believing that Gorbachev planned to dismiss some or all of them imminently-eight senior Soviet officials, including Vice President Gennady Yanayev, Defense Minister Dimitri Yazov, and KGB Chairman Vladimir Kryuchkov, launched a coup in the early morning hours of Monday, August 19, 1991.

The coup attempt began while Gorbachev was away at his official summer residence in the Crimea. Muscovites and others throughout the Soviet Union awoke to the news from the state-controlled media that "due to the condition of his health" Gorbachev had been relieved of his duties. A State Committee on the State of Emergency, TASS reported, had been established to run the country.

The State Committee was made up of most of the highest-ranking orthodox Communists in the Soviet government, and all had worked closely with Gorbachev. In addition to Defense Minister Yazov and KGB Chairman Kryuchkov, it included Interior Minister Boris Pugo, Soviet parliament Speaker Anatoly Lukyanov, the Chief of Apparatus for the Communist Party Oleg Shenin, and Prime Minister Valentin Pavlov. Each saw the Union Treaty which Gorbachev was about to sign as the last straw. In their view it would end the primacy of the various institutions that they controlled.

Russian President Yeltsin, at his dacha in Arkhangelskoye, was busy working the phones. He issued a statement denouncing the coup as unconstitutional, which was broadcast by Russia's first independent radio station, Echo Moskvyy. Ninety minutes after the coup was announced on radio Yeltsin left for the Russian White House, the seat of the Russian government. Along the way, he encountered tanks and armored personnel carriers brought in to intimidate the public. Long tank columns were positioned along streets leading to the center of the city, and tanks were stationed on both sides of every bridge across the Moscow River. In Lithuania and Latvia, Soviet troops seized the television and radio centers.

Yeltsin was determined to put his authority to the test. At 1 p.m., he climbed onto Tank No. 110 of the

Taman Division, which was positioned outside the Russian White House, and read a defiant statement calling the coup unconstitutional and demanding Gorbachev's release from house arrest at his dacha in the Crimea.

Muscovites moved to protect the White House by blocking approaches to it with buses and trolleys. By Monday evening, people had erected barricades and formed a human chain around the building.

A Firm U.S. Response

On Tuesday, August 20, on the only functioning phone line remaining available to him, Yeltsin spoke with George Bush. The American President stated firmly that the United States would not recognize the Yanayev government. President Bush also reported that he had already spoken with the other G7 leaders and believed they would follow America's lead.

The coup plotters apparently calculated that the United States would not take sides in a Soviet Communist power struggle. But Bush's action in support of Yeltsin and the Russian people took "the United States into largely uncharted territory by trying to influence Soviet politics more directly than anytime in more than 70 years."⁴³

Shortly after midnight on Wednesday morning, 30 tanks and 40 armored personnel carriers, along with 1,000 troops, approached the barricades surrounding the White House under orders to storm it. In the skirmishes that ensued the troops set several vehicles ablaze, and in the brief fighting three civilians died. But in the end most soldiers proved unwilling to fire on the crowds.

Later that afternoon, Yazov and the other coup leaders arrived to see Gorbachev, who had been trapped in his dacha and cut off from the outside world since the coup began. Gorbachev refused to meet them, and ordered their arrest. Instead, he received a delegation of Russian government representatives—a deeply symbolic gesture suggesting that Gorbachev finally had taken sides with Russia. The coup was unraveling.

The next day, Gorbachev arrived in Moscow. What he found on his return from his brief detention in the Crimea was a fundamentally changed political landscape.

The coup's rapid failure conclusively demonstrated the weakness of hard-line Soviet Communist Party elements and the irrelevance of the Party to developments in the U.S.S.R. It further accelerated the movement of public opinion in Russia and the other republics—particularly the Baltic States, Ukraine, and Georgia—toward support for independence. In the month after the coup, eleven of the Union's fifteen Republics declared their independence.

Yeltsin Takes Command

Boris Yeltsin's defiance of the coup-captured forever in the minds of Russians by the image of him standing atop the tank in front of the Russian White House—solidified his status as Russia's pre-eminent political leader and inspired millions more people outside Russia. The strength of the newly-elected Russian president contrasted sharply with Gorbachev's impotence.

Yet Yeltsin, as would be seen so clearly in the last years of his presidency, was more a populist than a democrat. While serving as Moscow's Communist Party Secretary, Yeltsin often rode the city's subway system and mingled with city residents. Many Russian democrats, led at the time largely by intellectuals and former dissidents like Andrei Sakharov, viewed Yeltsin with great skepticism. Sakharov was reportedly unwilling to vote for Yeltsin in Russia's 1989 parliamentary balloting because of concerns about his demagogic tendencies.

Many committed democrats were loath to follow a former Communist Party Politburo member. Many intellectuals, moreover, were uncomfortable with what they perceived as Yeltsin's lack of political sophistication. Even his popular appeal was troubling to some who felt that Yeltsin had hijacked for his own personal ends a movement they had suffered greatly to develop. That leaders of the democracy movement of the time expressed concern at the authoritarian tendencies already evident in his leadership should have been a warning to U.S. policy makers that they should support democracy and free enterprise, not just Yeltsin.

But Yeltsin, the first elected president of Russia, was an irreplaceable transitional leader at a time when Russia needed not just ideas with which to oppose Communism, but action-notwithstanding his failure in later years to live up to the expectations of either Russians or the West.

From Union to Independence

Despite the failed coup, or perhaps encouraged by it, work continued on a new Union Treaty that would allow each member state to define its own terms of participation. On October 18, 1991, Gorbachev and the leaders of eight republics (Armenia, Belarus, Kazakhstan, Kyrgyzstan, Russia, Tajikistan, Turkmenistan, and Uzbekistan) signed an agreement on an economic community. A month later, the U.S.S.R. State Council agreed on a framework for a confederation of sovereign states with a limited central authority.

Though Yeltsin had expressed support for a union as late as mid-November,⁴⁴ he had simultaneously been pursuing a separate track intended to eliminate centralized authority over the remaining states interested in some form of union.⁴⁵ The October and November agreements ceded much authority, but they were not enough for President Yeltsin.

Yeltsin's insistence on delaying the signing of Gorbachev's State Council agreement until after Ukraine's December 1 independence referendum (in which, as Yeltsin must have anticipated, 90% of the voters supported independence) bought him time to gain support for his strategy. A few days after the Ukrainian independence referendum, Yeltsin proposed a "Commonwealth of Independent States" without a central government. As the press observed at the time, Yeltsin's plan "killed off Mikhail Gorbachev's foundering plan to preserve the Soviet Union."⁴⁶

By December 8, Yeltsin was able to go outside the Gorbachev-led process and sign an agreement with the leaders of Ukraine and Belarus declaring the end of the U.S.S.R. and the creation of the new Commonwealth of Independent States (CIS). At the time, these three republics accounted for 70% of the population and 80% of the industrial output of the U.S.S.R. A joint communiqué stated: "As founding states of the U.S.S.R....we declare that the U.S.S.R. is ceasing its existence as a subject of international law and a geopolitical reality."⁴⁷

Mikhail Gorbachev resigned as the last Soviet president on December 25, 1991.



LENINISM'S DEFEAT: Children play on the fallen statue of Vladimir Lenin in Vilnius, Lithuania, Aug. 30, 1991. The statue of the Soviet dictator, who had called for the defeat of Russia in World War I before launching the bloody Russian civil war, was toppled after the failed 1991 Kremlin coup. AP Photo/Mindaugas Kulbis

The End of the Soviet Empire

Yeltsin had won the economic battle with the unwitting help of Gorbachev-whose openings to the West, as tentative as they were, exposed Russians to the possibilities of wealth generated by real market economies. Gorbachev and other senior leaders had recognized that the existing Soviet Communist system was economically bankrupt and unsustainable. This extraordinarily unfavorable economic situation was part of the Soviet Union's legacy to the newly independent Russia.

The collapse of the U.S.S.R. laid bare the catastrophic material impoverishment and decay that had been wrought by Communism over seven decades. Although missed by many observers,⁴⁸ the unsustainable economic, environmental, moral, and social ravages of Soviet Communism were obvious not only to a few far-seeing individuals such as Ronald Reagan⁴⁹ and Judy Shelton, but also to the leaders of the Soviet Union itself.

Ironically, it was the liberal intellectual elite in the West that not only failed to see the collapse coming, but argued against the very U.S. and European policies that helped accelerate it. One supposed Soviet expert, *Time* magazine's Strobe Talbott, repeatedly chastised President Reagan for pursuing his

ultimately successful policy of peace through strength.⁵⁰ Talbott would later be appointed by President Clinton to coordinate his Russia policy. The fact that Americans who were wrong about the defeat of the Soviet Empire ended up running U.S. relations with its former subjects is an irony of history.

The disintegration of the Soviet Union is often viewed as the culmination of the collapse of Communism in Central and Eastern Europe. But, while the death of the U.S.S.R. brought closure to the revolutions of 1989 and the Communist era in Europe, the events of 1991 in Russia were fundamentally different from what took place elsewhere in the former Soviet bloc.

The historical experience of Russia and most of the other Republics of the Soviet Union differed widely from those of the U.S.S.R.'s former satellites in Central Europe. Although the Russian Empire had undergone exceptionally rapid economic development in the last decades before 1917, by the late 20th century it lagged significantly behind most of Central Europe politically, socially, and economically. The Bolshevik revolution and the succeeding decades of Leninism and Stalinism, as well as the pervasive corruption of the Brezhnev era, devastated both economic life and civil society throughout Russia and the other nations of the U.S.S.R. The Soviet occupation of Central Europe since World War II was significantly briefer and wrought comparatively less damage to those societies, which to varying degrees had previously possessed capitalist economies, democratic institutions, or, at a minimum, more highly developed civil societies.

Subsequent underdevelopment even compared to former Warsaw Pact countries would significantly complicate attempts at economic and political reform.

The Legacy of 1991

The events of 1991 were part of a much larger process, with deeper roots. "[T]he Soviet Union is not immune from the reality of what is going on in the world," President Reagan had explained in 1982. "It has happened in the past: a small ruling elite either mistakenly attempts to ease domestic unrest through greater repression and foreign adventure, or it chooses a wiser course—it begins to allow its people a voice in their own destiny."

Once the people of the many captive nations of the Soviet Empire began to find that voice, their liberation became increasingly more likely. Indeed, the Russian people were instrumental in that result, and stood to reap the greatest gain. The Russian nation, led by a freely elected president, had liberated itself from the staggering economic, political, social, environmental, and moral burden that the Soviet empire had imposed on the Russian people.

With more than half the population of the Soviet Union and three-fourths of its land mass, Russia's victory over the Empire left it well-stocked in both human and material resources, if not in market mechanisms. A newly free Russia was finally prepared to emerge as a world economic power in its own right.

CHAPTER 2

CONDITIONS IN RUSSIA AT THE OUTSET OF THE YELTSIN AND CLINTON ADMINISTRATIONS



CONGRESS CELEBRATES FREEDOM FOR RUSSIA: In an historic Joint Session of Congress, June 17, 1992, Russian President Boris Yeltsin was interrupted by nine standing ovations as he described a country "devastated" by seven decades of Communist rule. "We have no right to fail in this most difficult endeavor, for there will be no second try, as in sports. Our predecessors have used them all up. The reforms must succeed." The Russian people, however, are more resilient than Yeltsin predicted, having survived the failure of "reform" and the nation's complete economic collapse in 1998. Today

they are hoping for a second chance.

Office of Photography/U.S. House of Representatives

I see Russia and the United States-which was the modern world's first democracy-developing a very special relationship, and I hope I can play a role for my country in Washington like that Franklin played for his in Paris. For Russian democracy to succeed, we need help.

I love the United States.

Russian Ambassador Vladimir P. Lukin, as quoted in the *Los Angeles Times*, April 9, 1992

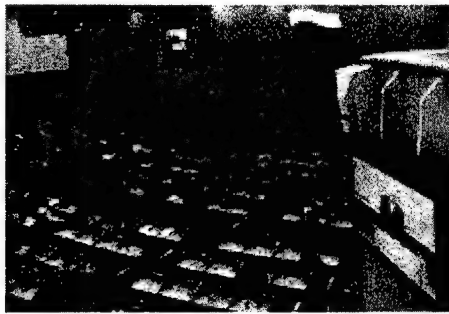
The newly independent Russian Federation seemed to many to be poised for rapid integration into the Western community of nations and, after a period of adjustment, economic and political rebirth.

Externally, Moscow enjoyed a favorable environment in which its former rivals, including the United States, were eager to assist morally, materially and technically in its renewal. Moreover, just as the collapse of the Soviet Empire redefined America's international security environment, Russian conditions were likewise favorably transformed. Taking into account the vast share of the Soviet economy directed to the military, Russia's potential "peace dividend" stood to be quite large.

At the same time, Russia possessed a large, well educated, and highly skilled workforce. Though the closed Soviet economy had been insulated from international products and competition, causing Russia to lag behind the West in many areas of technology, the country's overall technological level was high in the global context.

The nation's 6.5 million square miles of land offered a vast storehouse of potential wealth, if it could be placed in private ownership and used as the basis for commercial lending.

Finally, Russia possessed tremendous natural wealth, ranging from oil and gas to aluminum and diamonds. Russia's combination of natural and human resources seemed destined to return its people to greatness.



CLINTON SPEAKS TO THE RUSSIAN DUMA: In an embarrassing contrast to the reception Boris Yeltsin earned in the United States, President Clinton delivered an uninspiring speech to a half-empty Duma during a visit to Moscow, June 5, 2000. AP Photo/ Misha Japaridze

Russia also faced enormous challenges. Never in human history had so many people for so long been denied all economic and personal freedoms. The legacy of Soviet Communism was economic and political chaos. Russia inherited an economy thoroughly mis-developed and in steep decline. The massive resources devoted to military production meant that consumer goods were shoddy and scarce. The central planners' obsession with enormous industrial plants concentrated workers in far-flung one-company towns that could not be expected to survive serious restructuring from market discipline, yet the displaced workers had nowhere else to go because of a crippling housing shortage throughout the country.

The Soviet Union's state-controlled economy also left Russia without the basic legal and institutional components of a market economy. The illegality of private property in the Soviet system ensured that such functions as land title registries, real estate brokerage, securities exchanges, or even classified advertising did not exist. Similarly, there were no effective laws to enforce private contracts, protect intellectual property, or resolve commercial disputes between private individuals.



ACCORD: Presidents Ronald Reagan and George Bush enjoyed productive relationships with their Soviet and Russian counterparts and high popularity among the Russian people. U.S. President Ronald Reagan, right, and Soviet General Secretary Mikhail Gorbachev are shown at the negotiating table in Moscow, June 1, 1988, the fourth day of a summit. While relations with the Soviet Union and Russia were at high-water marks at the end of the Reagan and Bush terms, respectively, Russia appeared more interested in European, Chinese, and even North Korean relations than in improved ties with the United States at the end of the Clinton administration. AP Photo/Doug Mills

In the absence of such basic elements of a market economy, and without the elementary laws to support rights in private property, few Russians, let alone foreigners, would be willing or able to make a go of it in the chaotic Russian economy.

Russia's long Communist nightmare also had heavy political consequences. First and foremost, Russia lacked experience with democratic consensus-building; government officials knew how to command, but not how to lead.

Nor did Russia's new politicians have any experience in reading and responding to public opinion. As a result, Russia's political system soon became fragmented, as popular figures established movements or parties based on their own idiosyncratic views. Russia's reform-oriented parties were largely in disarray. Only the Communist Party of the Russian Federation, having inherited a structure and membership, began the new era with any organizational discipline.

In spite of all of this, the people of Russia were in high spirits. After 75 years of Communist privation and fear, they were ready for a fresh start.

The Soviet System

The prospects facing Russia's 146 million people following the fall of the Soviet system were exhilarating but daunting--because what had just ended was one of the most dysfunctional political economies in history.

Under the Soviet system, Gosplan, the Soviet economic planning agency, decided what and how much to produce throughout the Soviet Union, and its decisions were promulgated in rigid "five-year plans." Gosplan paid little heed to consumers' preferences; it relied on production quotas, rather than profitability, to measure success. Inferior quality and chronic shortages were the hallmarks of the Communist economy.

The grossly inefficient Soviet economic system met the needs of neither the Russian people nor those who lived in the Soviet Empire's captive nations. A black market in Western products, which expanded quickly in the final years of the Soviet Union, helped reveal the defective nature of the Communist economic system.¹

Because the Soviet economy produced so little that the rest of the world wanted to buy, its currency, the ruble, was worthless outside the Soviet Union. A lively black market in Western currencies flourished at all levels of Soviet society despite its illegality.²

Military needs also weighed heavily on the Soviet economy. It has been aptly stated that while the United States had a military-industrial complex, the U.S.S.R. *was* a military-industrial complex: throughout the Cold War, the Soviet military annually consumed between 40% and 50% of the Soviet Union's output, leaving few resources to meet consumers' needs.³

The Russian Economy at the Collapse of the Soviet Empire

At the outset of 1992, Russia's leaders confronted the social, economic, and political disarray they had inherited from Soviet Communism. The new Yeltsin government, in the throes of a chaotic transition, faced tasks that included the consolidation of political power in the wake of the August 1991 coup

attempt; Russia's establishment as a separate nation in the international arena; laying the political groundwork for a democratic, civil society; and constructing a free enterprise economy from the ground up.

Yeltsin's chief economic adviser and First Deputy Prime Minister, Yegor Gaidar, took responsibility for the economic turnaround. He became acting Prime Minister in June 1992.

The economic conditions that Gaidar had inherited from the Soviet Union were grim: inflation for 1992 was 2,500%, while the shrinking economy posted a "negative growth" of -14.5%.⁴

These horrific conditions had been long in the making. The Soviet war in Afghanistan, the additional military spending the Soviet Union had undertaken to compete with the Reagan policy of peace through strength, and the complete failure of the civilian economy to produce meaningful tax revenues and foreign exchange had all contributed to increasing deficit spending by the Soviet Union throughout the 1980s. As early as 1986, the government of the U.S.S.R. had come to rely heavily on international loans to finance its yearly operations.

But foreign borrowing to finance the government's annual deficits had also created new burdens on the economy, as budget expenditures rose for debt service. By 1991, the last year of the Soviet Union, the central government's budget deficit had risen to 20% of the entire nation's economy. As the situation worsened, the U.S.S.R. began to default on its foreign loan payments.

The end of the Soviet Union also meant the end of the Cold War. The good news for Russia was that it no longer had to compete with the United States in the arms race. But the military sector of the economy was one of few in which former Soviet enterprises enjoyed a comparative advantage--and for which there were willing foreign buyers. Somehow, Russia needed to convert its military production to technologies and products demanded by a consumer economy.

The majority of Russians vaguely recognized that building a market economy was the essential first step. They seemed prepared for at least some period of transition before conditions would eventually improve. As Gaidar and his colleagues began their work, they could not have asked for a bigger challenge or, in the circumstances, a more supportive climate of public opinion.

1992 and the Beginnings of Economic Reform

On January 2, 1992, on the advice of Gaidar's team, the government lifted price controls on many items. The expected result--a widespread increase in what had been artificially depressed prices--in fact occurred. But the brisk winds of market pricing were soon augmented by strong gusts of counterproductive monetary policy, which sabotaged Gaidar's anti-inflation strategies.

Rationalizing its inflationary monetary policies on the ground that it was difficult to collect taxes, the Russian Central Bank began to print money. At the same time, the neighboring newly independent states likewise printed rubles without concern for the consequences. The result was hyperinflation.⁵ The 250% inflation rate for January 1992 wiped out the value of people's savings accounts, created a fear of hunger, and undermined confidence in market reforms.

Gaidar and his team of economists, believing that they would not last much longer than a year in office,⁶

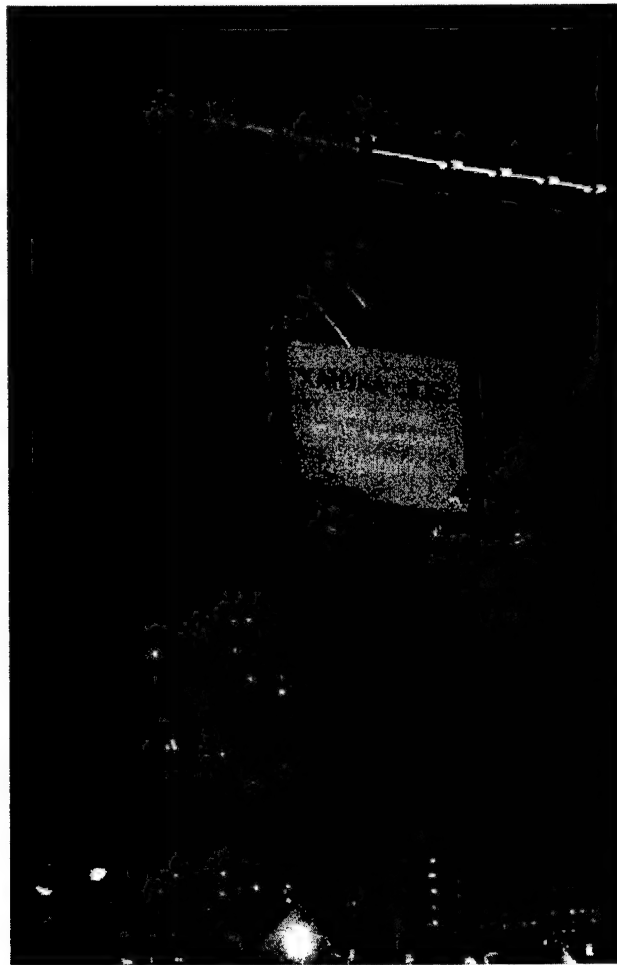
decided to move rapidly to promote their economic agenda. They believed that they needed to put state-owned companies into private hands as quickly as possible to disperse economic power and thus ensure against a possible return of Communist rule. As a result, they resorted to decrees to promulgate laws without legislative backing, stiffening the Soviet-era legislature's resistance to legislative implementation of their policies.

So began a tactic that would be used by the Communists in the legislature for years thereafter: portraying the executive branch of the new government as solely responsible for soaring prices and economic disarray, while refusing to participate in policy making through responsible legislation. In this way, legislators could assume the role of vigilant protectors of the common Russian interests, without bearing any of the political risk or responsibility for the enormous changes needed.

An average increase in wages of 50% in January only fractionally offset the month's 250% inflation. The standard of living fell, and poverty rose. Supply shortages were aggravated by the economy's saturation with rubles. By removing price controls, the Gaidar team had intended to let price rationing regulate demand while providing incentives for increased production. But the chaotic monetary policy of Russia's Central Bank frustrated these objectives.

Industry, which was accustomed to direction as to what and how much to produce, seemed incapable of heeding consumer demands. The Russian government, fearing food and other shortages, continued to issue production orders just as in Soviet days. Moreover, the government did not free all prices, out of concerns that certain staples would become too expensive--and that industries like energy, transportation, and communications could not sustain market pricing.⁷

The transition from a planned economy to a market economy was thus off to a bumpy start.



RELIGIOUS FREEDOM: The 1991 holiday season brought evidence that freedom was taking root and optimism about religious freedom, even before Gorbachev resigned as the last Soviet president on Christmas Day. Here, workers in Moscow erect a Menorah for Hanukkah. The Ukraine Hotel is in the background. On Sunday evening, Dec. 1, ABC's Forrest Sawyer reported "another first today for religious freedom in the Soviet Union. Not only were Jews allowed to openly celebrate Hanukkah, Soviet television even covered the lighting of the Menorah at the first ever Hanukkah ceremony at the Russian Parliament." Warm American-Russian relations were marked by the presence of American Jews in Moscow for the ceremony. The Associated Press reported that Russia's "19-year-old Lena Rosenblat watched intently to learn about her own religion. 'Unfortunately, we don't know much about our own traditions,' said the business student, standing with her 10-year-old sister Zhenya. 'I think we're the first generation in our family not to know about this.'" Lena and her family "huddled in the cold wind on the Parliament steps where barricades stood during the August coup. The coup's collapse, and the ensuing spirit of liberation, hastened changes that led to Sunday's celebration in the Soviet capital. 'Our lights are a guarantee against darkness,' said Rabbi Yitzhak Kogen, a member of the New York-based Lubavitch movement, which organized the ceremony. 'Everyone can use this light of Hanukkah.' He spoke to 200 people on the parliament steps watching the lighting of the 20-foot iron menorah, erected by the Lubavitch movement with permission from Boris Yeltsin's government. After several speeches, the rabbis were hoisted aloft by a crane and, while reciting a prayer, lit two kerosene lamps atop the center and far left branches of the eight-armed candelabrum. A vibrant 'Amen' rang out below and the sound of the Jewish songs reverberated off the white marble walls of the building. ... Communist rulers for decades suppressed Judaism and other religions in the name of official atheism. Though underground services and schools persisted, most Jews learned little or nothing about their own religion....' For Rosenblat, the Hanukkah celebration may have sparked optimism. 'Maybe we'll go to America or Israel. Or maybe,' she said, flashing a cheerful smile, 'we'll stay here.'" AP Photo/Alexander Zemlianichenko

The Political Landscape

After the January shock, inflation slowed to 10% by August 1992. But throughout the year, the Russian government and the Central Bank continued to extend credits to inefficient, corrupt enterprises in a misguided effort to boost production.

The results were predictable: more inflation. Inflation rose to 25% by October, and remained at that level for the balance of the year. Production continued to lag, as anti-competitive subsidies for money-losing industries continued. The ever-weakening ruble, combined with growing uncertainty about the future of their economy, led Russians to trust dollars over rubles.

During the year of economic tumult following Yeltsin's January 1992 decision to move toward market pricing without creating a free market in production, he lost support in the Russian parliament.

The Sixth Congress of the Russian People's Deputies, elected in March 1990, had convened in April 1992 amid protests over government economic policies. Yeltsin sacrificed his chief adviser, Gennady Burbulis, to quiet the outcry, but the respite was short-lived. Opposition came to a head in December 1992, when the Congress of People's Deputies rejected Yeltsin's nomination of Yegor Gaidar, who had been serving as the acting prime minister since June.

For the first two years of Yeltsin's administration, Russia continued to function under the Soviet-era constitution. (Not until December 1993 would Russia finally adopt its first constitution since independence.) Under the Soviet-era constitution of the Russian Federation, real legislative power existed only in theory.

The Russian legislature under the Soviet-era constitution was the Congress of People's Deputies and its smaller, full-time component, the Russian Supreme Soviet. In Soviet times, this body, like its counterparts in the other Union Republics, was a docile rubber stamp for measures already decided by the Communist Party Central Committee.

But without a ruling Communist Party from which to take orders, the Russian legislature's nominal powers took on new significance. Thus, when Russians created the presidency in 1991 its powers in comparison with those of the legislative branch were modest. While the president was the "highest official of the Russian Federation and the head of executive power," Yeltsin had to work through a Supreme Soviet elected in March 1990. The Supreme Soviet could override a presidential veto with a simple majority in both houses and could impeach the president if it found that he violated his oath of office.

In the early days of Russia's rebirth, however, Boris Yeltsin enjoyed high popularity--and therefore authority in fact, if not authority in law. On November 1, 1991, the Russian Congress of People's Deputies acknowledged this fact and voted to grant Yeltsin the power to rule the economy by decree until December 1992.⁹

On November 6, 1991, the Russian president moved to enhance his power, announcing that he would serve as his own prime minister and assume personal control of Russia's transition. The parliament's decision to give Yeltsin the power to make economic policy by decree was a significant precedent, because in so doing they failed to establish a democratic process to make policy.

Yeltsin's broad powers were based on his personal popularity rather than law, and therefore proved

vulnerable to changing public opinion. In the early period of his presidency, he enjoyed considerable power, and was able to effect controversial measures, including those that all agreed would bring short-run economic hardship. But his failure to forge a political base of support for such measures or to secure their enactment by the legislature left him as the inevitable target of criticism from other popularly elected leaders.

In December 1992 Yeltsin retained sufficient authority, however, to reach an accord with the legislature.

A Setback to Market Reforms: Chernomyrdin Replaces Gaidar

In a compromise organized by the centrist Civic Union, Gaidar was replaced by Viktor Stepanovich Chernomyrdin, who before becoming deputy prime minister in Gaidar's government had been the head of the Soviet Union's largest monopoly, Gazprom--the state-run natural gas giant.¹⁰

Chernomyrdin's appointment was a devastating step backward. But Yeltsin's decision was a pragmatic one: Gaidar and his reforms had become associated with the disruption in people's lives, and the Russian parliament had grown increasingly hostile toward Yeltsin.¹¹

Chernomyrdin, whom U.S. Vice President Al Gore would soon make the focus of U.S.-Russia policy,¹² was neither a democrat nor a believer in free markets. The international press described him as a "Communist-trained technocrat ... [who] comes to the job with a background in Soviet industrial management and political back-scratching."¹³

Chernomyrdin was born in Orenburg in 1938, graduated from the Polytechnical Institute at Kyubyshev, and received a degree in engineering economics by correspondence from Moscow's All-Union Polytechnical Institute. He worked as a machinist at the Orsk Oil Processing Plant starting in 1960, joined the Communist Party's local branch the next year, and rose to prominence through party ranks.

In 1978, he became an industrial adviser to the Communist Party Central Committee. In 1982, he was appointed deputy minister of the Soviet Ministry of Gas Industry, and, in 1985, he became minister under Gorbachev. In August 1989, when the Ministry became Gazprom, Chernomyrdin became chairman and CEO. He remained there until August 1992, when Russian President Boris Yeltsin made him deputy prime minister for the fuel and gas industry. During his career, Chernomyrdin was awarded several Communist Party honors, including the Order of the October Revolution, the Order of the Red Banner of Labor, and the Order of the Badge of Honor.¹⁴

Chernomyrdin's statist economic background was a fair predictor of his forthcoming performance as prime minister. On December 31, 1992, shortly after taking office, Chernomyrdin signed a resolution re-imposing price controls on a wide range of goods. The new prime minister also proposed increasing subsidies to protect insolvent state enterprises.¹⁵

Yeltsin's agreement to appoint Chernomyrdin was purchased with a commitment from hard-liners to hold an April 1993 referendum to approve a new constitution, as well as to test public support for continued moves away from Communism.

Yeltsin's maneuvering to obtain a vote on whether to continue market reforms was shrewd. The results of the referendum--15 months into Yeltsin's tenure--showed that 53% of voters approved of his

economic course, notwithstanding the extreme hardship it imposed. Moreover, 67% supported early legislative elections to replace the Communist hardliners in the legislature--a powerful public endorsement of Yeltsin and his policy.

None of this deterred centrists and hardliners in the parliament from attempting to put the brakes on economic reform to give greater attention to "social needs."¹⁶

New Liberties and the Rule of Law

The U.S. Department of State reported that in its first year of independence Russia had "made substantial progress toward democratic change, the reform of its political and economic systems, and the dismantling of the remnants of the former Soviet state."¹⁷

As democratization advanced, the number and activity of political, civic, and other groups exploded. In its annual survey, *Freedom in the World*, Freedom House called attention to "a multitude of parties, as well as non-political civic, cultural, social, business, youth, and other organizations" in Russia in 1992.¹⁸ The State Department estimated that some 300 strictly political organizations operated "unhindered" in the country, adding that public demonstrations were commonplace throughout the year and took place "routinely" without government interference.¹⁹

Similarly, the State Department reported that freedom of speech and the press at this time were "widely respected," and that most periodicals were now free of government control.²⁰ A new law prohibiting censorship and the creation of media monopolies guaranteed the freedom of Russia's print media.²¹

The new Russia took other important steps in 1992 to undo the Soviet legacy. The parliament passed legislation dismantling the Soviet Union's KGB into several agencies. The new outfits were ordered to respect human and civil rights, and submit to legislative oversight.²²

Russia's citizens generally enjoyed freedom of religion and growing freedom of movement in 1992. By the end of 1992, all adult citizens were granted the right to travel abroad.²³

The 1992 creation of Russia's Constitutional Court was likewise an important step for the protection and expansion of Russians' new freedoms, and the establishment of the rule of law. Two major Court decisions in 1992--a January ruling overturning a Yeltsin decree merging the KGB and the Interior Ministry, and a November decision that Yeltsin's ban on the Communist Party after the August 1991 coup attempt was unconstitutional--implemented the important principle of judicial review of the legitimacy of executive acts, and marked important progress toward the establishment an independent judiciary.²⁴

Just as importantly, President Yeltsin's acceptance of the verdicts was a hopeful sign for development of the rule of law in Russia. For a Soviet court to have ruled against a measure promulgated by the Communist Party leadership, or for Party leaders to have obeyed such a decision, would have been unthinkable.

Despite these encouraging signs, much work remained then, and remains now, to establish the rule of law. Unlike the American Revolution of 1776, the French Revolution of 1789, or even the Bolshevik Revolution of 1917, the Russian Revolution of 1991 did not overturn existing laws or destroy the

governing institutions. Not only did the Soviet constitution remain in force for two years, until December 1993, but even today many Soviet-era laws continue to be enforced.²⁵

Popular Views of Democracy, Reform, and the United States

According to Librarian of Congress James Billington, a renowned Russia scholar,²⁶ Russia has many times in its past turned to its principal adversary for new thinking and institutions. As Russia rebuilt its society after the Cold War, it looked to America for guidance,²⁷ offering an historic opportunity for both countries.

Never was this fascination with the United States, its people, its values, and its structures more apparent than in the first years of Russian independence. As 1992 opened, Russian enthusiasm for democracy and a market-based economy was manifest. After 75 years of Communism, Russians yearned to become what they called a "normal" country.

Pro-democracy groups sprang up and independent political groups proliferated as Russians tested their new political rights and showed their excitement about democracy. Public opinion polls showed remarkably resilient support for Yeltsin's economic reform program, including privatization and other measures,²⁸ even after the economic hardships of price liberalization. Conversely, the Russian parliament lost support as the public began to perceive it as a hindrance to reform.

In addition to displaying enthusiasm for the American model of democracy and free markets, Russians wanted broad and close ties to the United States. This was apparent not only in opinion polls, where strong relations with America registered as a top priority,²⁹ but also in a general fascination with American popular culture.

American clothing, films, and music surged in popularity, particularly in Moscow and St. Petersburg. In early 1992, over 70% of Russians surveyed were viewers of the soap opera "Santa Barbara." Russia's RTR television network estimated the audience for the program to be 80 million.³⁰

Nor was Russian popular fascination with America and Western culture limited to television programming. According to the Russian Press Ministry, the best-selling book in Russia in 1992 was Margaret Mitchell's *Gone With the Wind*, followed by Edgar Rice Burroughs' *Tarzan of the Apes*. Western artists dominated pop music charts. The Beatles accounted for two of the top three selling albums of the year, as the *White Album* and *Abbey Road* ranked first and third, respectively. In Moscow movie theatres, *Gone With the Wind* had the largest ticket sales of any foreign movie.³¹

Russians were obviously enamored of things American--both material goods, such as McDonald's hamburgers and Levi's jeans, and Western governmental and economic institutions.³²

Such interest gave the United States an unprecedented opportunity to assist the Russian people in their transition from Communism to free enterprise and democracy.

Russian Foreign and Defense Policy

Russia's foreign policy reflected the overwhelming goodwill of Russia's citizens toward the United States in 1992. The rhetoric of Russian government leaders was positive. President Yeltsin's speech on January 31, 1992, at the United Nations in New York--which had so often been the site for showdowns between the United States and the Soviet Union--was remarkable:

Russia considers the United States and the West not as mere partners but rather as allies. It is a basic prerequisite for, I would say, a revolution in peaceful cooperation among civilized nations.

We reject any subordination of foreign policy to pure ideology or ideological doctrines. Our principles are clear and simple: supremacy of democracy, human rights and freedoms, legal and moral standards.³³

Later in the year, Russia supported U.S. efforts in the U.N. Security Council for sanctions against Libya for its terrorist activities, as well as condemnation of the government of Yugoslavia for its interference in the civil war in Bosnia-Herzegovina. This support was essential to American attempts to isolate both Tripoli and Belgrade.

Russia's rejection of its former Communist ideology in foreign policy, and its emphasis on the universal values of democracy, human rights, individual freedom, and public morality, went well beyond Gorbachev's comparatively timid "new thinking" in Soviet foreign policy. It was not too much to hope that the spirit of brotherhood between the U.S. and Russia forged in the battle against fascism during World War II would supplant decades of Cold War antagonism.

The Bush-Yeltsin Watershed

During Yeltsin's June 1992 visit to Washington he and President Bush signed agreements that engendered great hopes for enduring cooperation between Washington and Moscow. Most significant was a joint understanding that was to serve as the framework for the START II Treaty that Presidents Yeltsin and Bush signed on January 3, 1993.³⁴ START II was an agreement to reduce both countries' nuclear warheads by almost 75%, eliminating highly destabilizing multiple-warhead land-based missiles.³⁵

There were dozens of other agreements, including a Charter for American-Russian Partnership and Friendship that laid out an ambitious plan for cooperation in preventing and limiting international conflicts, a statement on joint work to develop a missile warning system, and agreements on non-proliferation, space, and investment.³⁶

The spirit of the times was captured by the extraordinary reception President Yeltsin received when he called for closer U.S.-Russian cooperation in the address he gave during a June 1992 visit to a Joint Session of Congress. Saying Russia was "extending its hand of friendship to the people of America," he invited America "to join [Russia] in partnership in the quest for freedom and justice in the 21st century."³⁷

During his address to Congress, Yeltsin renounced the most confrontational aspects of Soviet foreign policy, including U.S.S.R intervention in Afghanistan and support for Cuba's Communist regime. He also announced that he had ordered Russia's Defense Ministry to begin to remove the country's most

dangerous missiles, its land-based multiple warhead SS-18s, from alert status.

Russian overtures to America at this time also included cooperation on non-proliferation, reductions in conventional weapons, and--of special note--discussions of a cooperative global anti-ballistic missile (ABM) system.³⁸ Russia played a key role in facilitating the Lisbon Protocols to START I, which guaranteed that Belarus, Kazakhstan, and Ukraine would transfer Soviet nuclear weapons to Russia for destruction and assume non-nuclear status. The subsequent unhappy evolution of Belarus under President Alexander Lukashenka is a reminder of the importance of this agreement to contemporary international security.

Early Military Conversion Efforts

Perhaps the most significant development in the early days of the new Russia was the initiative for a massive de-militarization of the Russian economy.

Russia's 1992 military budget called for expenditures to be one-half the previous year's, with a substantial majority of the funds to be spent on personnel and operations and maintenance.³⁹ Military procurement was sharply reduced. While the U.S.S.R. had bought 3,000 tanks in 1991, Russia was slated to purchase only 30 in 1992.⁴⁰ Altogether, spending on military hardware was cut by 80%.⁴¹

At the same time, the law "On Defense" adopted by parliament in June 1992 limited the size of Russia's peacetime military to 1% of the country's population, or about 1.5 million soldiers.⁴² The Russian military planned to reduce its forces by some 700,000 men during the period 1992-94.⁴³

Russia's demobilization in 1992 was fraught with political peril. Cuts in procurement placed thousands of jobs in Russia's oversized military-industrial complex in jeopardy, at the very time that the rest of the economy was also under heavy pressure. Russia had ambitious plans for the conversion of military plants to civilian production. Conversion, however, required even more spending than continued military production.

According to Mikhail Bazhanov, the head of the State Conversion Committee, Russia would need to invest 1.2 million rubles in converting to civilian production for every one million rubles it received from state orders for military production.⁴⁴

Bazhanov worried that Russia could be forced to turn to arms sales to finance its military conversion effort. President Yeltsin concurred, but vowed that Russia would not sell weapons to countries under U.N. sanctions.⁴⁵ Yeltsin also decreed that the Defense Ministry should be permitted to sell all excess property other than weapons and ammunition in order to raise funds.⁴⁶



INVESTMENT, NOT AID: President Bush and President Boris Yeltsin leave the stage after meeting with business executives in Washington when Yeltsin was in the United States for a summit. "In effect," *New York Times* foreign affairs columnist Thomas L. Friedman wrote at the close of the June 16-17 summit, "these two days marked the moment when the currency of American-Russian relations shifted from warheads to dollars. ... The importance of the economic agreements signed today, offering most-favored-nation trade benefits to Russian exporters, export credits, a taxation treaty, insurance to American companies wanting to invest in Russia and a treaty to govern mutual investment, is that they promote what will really transform the Russian economy: not foreign aid, but private investment. One thing American officials have learned from the experience of Poland is that while Western aid is necessary for transformation to a free market," Friedman continued, more is necessary. "There is no capitalism without capitalists, and unless Russia is opened up to investment, unless state-owned industries are privatized quickly, unless the ruble is made convertible and unless there is a modicum of internal stability to attract foreign businesses, no external aid package will be big enough." Clinton administration officials, however, attempted to rely on aid, neglecting the prerequisite for its effectiveness, the creation of a market economy. AP Photo/Dennis

Cook



BIPARTISAN POLICY: Russian President Boris Yeltsin received a warm bipartisan welcome in Congress in 1992. Despite the fact that 1992 was an election year, Republicans and Democrats worked together to pass the FREEDOM Support Act. Had this legislation been properly implemented during President Clinton's two terms, it would have provided for much better conditions in Russia and for a more positive U.S.-Russia relationship. Office of Photography/U.S. House of Representatives

Bringing Troops Home

The withdrawal of Russian military forces from abroad and the partial dissolution of unnecessary military units created similar economic challenges. In August 1992, some 104,000 military personnel were without housing; the number was expected to increase substantially as additional troops were pulled from foreign bases.⁴⁷ Large numbers of potentially disaffected current and former military personnel were a major political concern of the Yeltsin government.

Nevertheless, Russia began the withdrawal of substantial military forces stationed in Central and Eastern Europe and the Newly Independent States of the former Soviet Union during 1992. For example, some 15,000 soldiers and officers had withdrawn from Lithuania by fall.⁴⁸

Despite these very practical problems, the trends were unmistakable: whereas the Soviet Union had devoted itself chiefly to the maintenance and expansion of its military and empire, the new Russia--at least in its early days--was committed to channeling its enormous potential into the construction of a free enterprise civilian economy.

The collapse of the Soviet Union and the newly pro-western orientation of Russia's foreign and military policies also had consequences for the mission of the Russian military, as political leaders reevaluated its fundamental purposes. At the end of 1992, Boris Yeltsin identified the top priorities of the Russian army as preventing war, conducting demilitarization, converting military enterprises to civilian purposes, and reducing troop strength.⁴⁹ The Russian military was to be oriented primarily toward its own internal restructuring and downsizing.

As President Clinton took the oath of office on January 20, 1993, the Russian government was completing the *Foreign Policy Concept of the Russian Federation*, an authoritative statement of its goals, which--as issued in final form five days later--announced that the conclusion of a Russian-American alliance was the formal objective of Russian foreign policy. There was no hint of the dramatic deterioration in the U.S.-Russian relationship and the anti-American Russian military and foreign policy that were to come.⁵⁰

U.S. Russia Policy at the Outset of the Clinton Administration

At the outset of the Clinton administration, the Bush administration and Congress had put in place the necessary tools for the United States to assist the Russian people in their historic transition from Communism to free enterprise. In the same way that America's former enemies, Germany and Japan, had become friends, allies, and significant U.S. trading partners, it appeared that so too might Russia and the new nations of the former Soviet Empire.

The Bush administration's Russia policy during the closing days of Gorbachev's government had been one of cautious engagement--supporting freedom, but avoiding potentially counterproductive steps such as the large-scale infusion of cash into a system in transition.⁵¹

As early as 1990, the United States had begun to provide limited assistance to the Soviet Union to show support for reform. Before the final collapse of the Soviet Union in December 1991, the Bush administration took several steps to prevent adverse social consequences from the thus-far peaceful revolution, including signing an agreement to extend normal trade relations to all of the republics of the Soviet Union, providing nearly \$1.2 billion in food aid and agricultural credits, and extending medical assistance.

The caution and reserve of the Bush administration, which was apparent to Russian observers at the time,⁵² compared favorably to the approach of its successors--particularly in terms of the positive results it produced.

On the strategic front, President Bush in 1991 announced several significant initiatives, including the elimination of U.S. short-range nuclear weapons, the stand-down of strategic bombers and ICBMs slated for destruction under the START agreement, and a proposal to eliminate ICBMs with multiple warheads (eventually a key part of START II).⁵³ The administration continued this approach in 1992, taking important steps to reduce tensions while protecting America's strategic interests.

Support for Freedom

The most important Bush administration initiative of 1992 was the Freedom for Russia and Emerging Eurasian Democracies and Open Markets (FREEDOM) Support Act.⁵⁴ During a difficult U.S. election season, the Bush administration successfully pushed this path-breaking legislation through a Congress controlled by the opposing party, despite unusually strained relations between Congress and the executive branch.

"During my tenure," said Richard Armitage, former Coordinator for U.S. Humanitarian and Technical

Assistance, "I communicated directly, often, and in great detail, with the appropriate Committees of Congress. I wanted very much to have the advice of key Members and staff and share with the Congress my sense of just how daunting the task of undoing the effects of 70 years of Communism would be. We reached, I think, a bipartisan consensus."⁵⁵

The Bush administration's willingness to expend significant political capital and engage the Democratic Congress to achieve the historic bipartisan Freedom Support Act insured that, had the administration not changed, both branches would have subsequently followed through on its implementation.⁵⁶

The Freedom Support Act provided the executive branch with "broad authority for the conduct of a wide range of humanitarian and technical assistance programs."⁵⁷ The premise of the legislation, as stated in the Act itself, was that developments in Russia and the other independent nations of the former Soviet Union presented "an historic opportunity for a transition to a peaceful and stable international order and the integration of the independent states of the former Soviet Union into the community of democratic nations." The legislation specifically authorized technical cooperation, medical aid, food assistance, assistance for the development of democratic institutions, and encouragement of trade and investment. It cited as objectives the establishment of the rule of law, the adoption of commercial codes, and replacing the Soviet regulatory system with transparent regulations hospitable to domestic and foreign investment. The Act also created the Office of Coordinator of U.S. Assistance to the New Independent States.⁵⁸

A Newly Free People

The rapid transformation of Russia from a closed, militarized, state-run society to a pro-Western, democratic, free-thinking nation presented the United States with the most significant foreign policy opportunity since World War II. But Russia's new freedoms were neither complete nor secure. At the end of 1992, as Russians stood on the ashes of the Soviet system, they looked hopefully toward America and the world--not for charity, but for inspiration.

How President Clinton, the new leader of the free world, would address this opportunity, and whether Russia's new leaders would stay the course of dismantling the Soviet Communist state, hung in the balance.

CHAPTER 3

THE TASK AHEAD:

CREATION OF A FREE ENTERPRISE SYSTEM AFTER A CENTURY OF STATE CONTROL



FROM THE BERLIN WALL TO THE INVISIBLE WALL: "General Secretary Gorbachev," President Reagan asked at the Berlin Wall, June 12, 1987, "if you seek peace, if you seek prosperity for the Soviet Union and Eastern Europe, if you seek liberalization: Come here to this gate! Mr. Gorbachev, open this gate! Mr. Gorbachev, tear down this wall!" The Berlin Wall fell, but at the outset of the Clinton and Yeltsin administrations, an invisible wall of high tax rates, limited market competition, weak contract and property rights, and no real banking system confined Russians. Clinton policy reinforced this invisible wall with bad economic advice that contributed to Russia's economic collapse in 1998. Trade with the Communist-controlled People's Republic of China was a higher priority than trade with Russia. Tax collections were emphasized over rate cuts. Government-to-government loans substituted for growth policy. Capital flight undermined investment in Russia. Predictably, Russia's economic output plunged 40%. Clinton policy contradicted advice from President Reagan in his Berlin Wall speech: "In West Germany and here in Berlin," the President said, "there took place an economic

miracle, the Wirtschaftswunder. Adenauer, Erhard, Reuter, and other leaders understood the practical importance of liberty—that just as truth can flourish only when the journalist is given freedom of speech, so prosperity can come about only when the farmer and businessman enjoy economic freedom. The German leaders reduced tariffs, expanded free trade, lowered taxes. From 1950 to 1960 alone, the standard of living in West Germany and Berlin doubled." AP Photo/J. Scott

Applewhite

For 72 years, Communism in Russia waged a silent war against the human soul. Sometimes screams were heard from torture chambers deep in prisons and in detention centers, but mostly the war was fought with ideas and incessant public propaganda ... Communism ... wounded the habits of honesty and trust, self-reliance and fidelity to one's word ... The transition from Communism to a free society is consequently a severely demanding moral task ... How that transition goes is perhaps the greatest issue of our time.

Michael Novak, writing in *Commentary*, June/July 2000

Economic science adds that the more successfully private business is run in society and the more (so to speak) whole coats there are, the firmer are its foundations and the more the commonweal flourishes.

Thus, while busy acquiring only and exclusively for myself, I actually, at the same time as it were, acquire for all and help bring about a condition in which my neighbor receives something more than a torn coat. And he receives it not from the private charity of a few but as a result of overall improvement. The idea is a simple one. Unfortunately, it has been too long in reaching us.

Fyodor Dostoyevsky, *Crime and Punishment*, 1866

Without justice, what is the state but a band of thieves?

St. Augustine, *The City of God*

The English philosopher John Locke argued that the essential function of government is to protect life, liberty, and property. The Soviet Communist system--which killed at least 20 million Russians, denied freedom of thought and expression, and confiscated property--turned Locke's prescription upside down.¹

The task facing the Russian people in January 1992 was to replace Communism with a free enterprise system and a democratic government that would protect life, liberty, and property.

The collapse of Communism in Russia ended not only the Soviet police state, the gulag, the one-party dictatorship, and the monopoly of state-controlled media but also the Soviet centrally-planned economy. The *perestroika* of the last Communist Party General Secretary, Mikhail Gorbachev, had been an effort to refine, not to replace, the command system of the Soviet Union. But now, in January 1992, there was for the first time in the experience of most living Russians a genuine opportunity to build the foundations of a free enterprise system.

The necessary bricks for that foundation were clear enough:

- * Market-determined prices and production
- * Binding, enforceable private contracts
- * Individual ownership rights in land
- * Private mortgage lending
- * Commercial banking
- * Uninhibited individual investment in for-profit enterprises
- * Taxes light enough to minimize tax penalties on work, savings, investment, and risk-taking

The question was not whether, but where--and how--to begin.

A Dysfunctional System

The economic system in Russia at the dissolution of the Soviet Union was fundamentally dysfunctional because the state attempted to control far too many aspects of life. Whereas in Eastern Europe for some 45 years Communism had been superimposed on largely market economies, in Russia Communism had been in place for the better part of a century, and had been imposed on a society with comparatively little experience of free markets.

Any small private farms that had existed before Communism in Russia were brutally collectivized. In Stalin's phrase, the people who owned the farms were "liquidated as a class"--and often as individuals. In Poland, by contrast, small, privately-owned farms survived the post-World War II imposition of Communism: by some estimates, 30% of the Polish economy was privately controlled even during Communist rule.² The seeds of free enterprise in Russia would be planted on less fertile soil.



SMITH BURIES MARX: Nina Khrushcheva, the 32-year-old granddaughter of the late Soviet Premier and Cold War leader Nikita Khrushchev, signs autographs with President Nixon's grandson, Christopher Cox, for visitors July 28, 1996 at the Richard Nixon Library and Birthplace in Yorba Linda, Calif. In the background is a photograph of Khrushchev with Nixon. While her grandfather told Nixon "we will bury you," Nina Khrushcheva noted that the challenge facing Russia at the outset of the Clinton administration was that "there could not have been a culture more out of touch with Adam Smith." AP Photo/Damian Dovarganes

According to Nina Khrushcheva, granddaughter of Soviet dictator Nikita Khrushchev: "There could not have been a culture more out of touch with Adam Smith."³ Acting prime minister Yegor Gaidar put it this way: "[A]fter seven decades of a regime for which private enterprise was not merely a dirty word but a criminal act...[t]he hostility toward private property permeated all of Soviet legislation and law enforcement."⁴

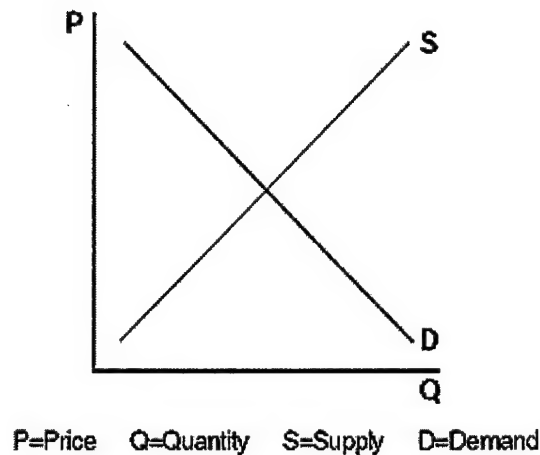
The Soviet economic bureaucracy in Moscow made decisions for 270 million people inhabiting eleven time zones. Soviet planners constructed an economy devoid of individual initiative and dominated by military spending. Individuals in the Soviet Union who sought to earn a profit were subject to imprisonment for the crime of "speculation." Central planning affected all aspects of the individual's life.

To move from this vast state-controlled economy to a free enterprise system based on private property, markets, and individual choice called for change on a breathtakingly large scale.

For the government, there were three main tasks:

- * Soviet-era laws and regulations governing commerce would have to be repealed--not just in Moscow, but in each regional legislature.
- * New legal protections for private property and private contracts would have to be enacted.
- * The courts would have to build public confidence that privately-made contracts would be binding and enforceable.

Critiques of the reform process in Russia have often centered on a handful of generalities. Analysts of all ideologies decry the lack of "transparency" in Russian regulation, the need for the government to establish the "rule of law," and the need for the government to build efficient "institutions." In testimony before the House International Relations Committee in September 1998, then-Deputy Treasury Secretary Lawrence Summers repeated these formulations. However, the economic challenge that faced Russia in 1992, *and continues today*, is not simply to establish a better-working government. It is to fundamentally



Tearing Down the Soviet Network

The Russian economy was divided into about 200,000 state-owned enterprises. Of these organizations, about 600 gigantic industries were responsible for 47% of the Soviet Union's non-military industrial production.⁵

For most of these industries, competition was non-existent: they enjoyed a state-enforced monopoly in particular markets. The management of these firms was uninvolved in the strategic decisions normally made by a company's executives. Instead, central planners in Moscow determined quantity and quality, chose suppliers and distributors, and decided what markets were open to industry. This reduced management to little more than production foremen.

During the final months of the Soviet Union, control over enterprises had in some cases been partially devolved to governments in the republics, complicating the prospects for privatization by giving multiple and competing levels of government claims on controlling the privatization of particular industries. In many cases, the resulting limbo left local plant managers and workers in control of factories regardless of the nominal ownership.

The inertia of 70 years of central planning kept producer-supplier relationships in place, despite the collapse of government-organized payment arrangements.

The "privatizations" of the 1990s would later fail to disintegrate the network of inefficient supplier relationships established under the Soviet command economy. This was true in part because the management remained the same, but just as importantly, because the *incentives* to change were missing.

Thus, the Soviet enterprise network continued to operate in essentially the same manner even after the fall of the Soviet Union. Products were still produced in qualities and quantities unrelated to market realities. And while a market economy would have quickly bankrupted inefficient companies that consistently lost money, in Russia these companies continued to limp along, often through continued state subsidies.

The European Bank for Reconstruction and Development later reassessed the first years of economic reform in Russia and Eastern Europe, concluding: "The consequences of the privatization strategy adopted in Russia have been highly adverse for the governance of enterprises and the allocation of resources, not least because of the clear failure to break the political constraints on restructuring and company closures."⁶

"Privatization" is impossible without a functioning market economy into which formerly state-owned assets can be sold. Nonetheless, throughout the 1990s both Russian policy makers and their American advisors (who should have known better) rarely concerned themselves with doing the government's part to establish a market economy. In a free enterprise system, government referees the game, but it is not a player. In the Russian "privatization" scheme, the government relinquished only some of its rights to play the game, and it continued to call too many--and sometimes all--of the plays. As a result, the "privatized" Russian enterprises lacked the normal incentives that cause the efficient allocation of resources in free markets.

Without enforceable property rights, the proprietors of "privatized" firms lacked the incentive to run companies efficiently and in accord with economic reality. Instead, producing profits for the firm's owners often required flatly illegal conduct. The government's continued subsidies for industry only encouraged such conduct, by providing opportunities for owners to strip away assets for their own personal profit, without market discipline.

The task in 1992 was to tear down the Soviet enterprise networks and provide neutral, pro-competitive rules to permit individuals to build new firms in an expanding market. "Privatization" without genuine private property and authentic markets could not accomplish this task.

Establishing Private Property Rights in Land

In 1991, the Russian language did not even have a word or term that captured the essence of private property in land, underscoring how alien this notion was to the Soviet system. Property belonged to everyone, and therefore to no one. As a result, incentives to maintain and enhance the value of real property were absent in Soviet-era society.

The lack of any legal, cultural, or customary basis for private property in land in the Soviet system stifled initiative, suppressed entrepreneurship, wasted valuable human and physical capital, and contributed significantly to the ultimate collapse of the Soviet Communist regime.

In 1991, the Soviet state owned an estimated 1.5 trillion acres of arable land. Breaking the state monopoly over real property was an important first step to allow Russians to use it to generate real wealth. Beyond de-collectivization of the massive state farms and the "privatization" of state-owned industry and housing, a means was required to distribute land to Russian citizens who for decades had been deprived of the opportunity to own it.

The enormous task of moving vast acreages of Russian land from state control to private ownership was not unprecedented. The United States faced a similar challenge in the 19th century. By the 1850s, America's huge land acquisitions had left the government in control of over half of the continental United States. Transferring government-owned land west of the Mississippi River to private ownership became an enormous--and urgent--project.

In 1862, President Abraham Lincoln signed the Homestead Act, one of history's most notable examples of establishing private ownership from scratch. The Homestead Act allowed each citizen to claim one-quarter square mile of surveyed government land for his home, as long as he improved it with a dwelling and grew crops. If the owner maintained the property for five years, permanently clear title was issued.

The Homestead Act and subsequent laws succeeded in transferring vast portions of the United States from government control to private individuals in less than 20 years. Settlers first built homes of sod, which were soon replaced by frame and brick houses. The private property owners invested in trees to shield their dwellings, windmills to pump water from underground, and a host of technologies that made farming profitable. This remarkable transformation of prairie to developed real property was only possible through the establishment of a key element of the free enterprise system: individual ownership of land.

With such vast portions of the Russian Federation under state control, Russia required legislation that would do for it what the Homestead Act did for America almost 150 years ago--not only for residential and agricultural land, but for real property that might be put to any use.

Even more basic prerequisites for establishing private property rights in land were accurate surveying as the basis for certainty of title and public registration of ownership, so that others know who owns what. For property ownership to be useful to individual Russians, titles would have to be open to public inspection and well settled, with no "hidden" state or private claims or rights against the property.

A registry of deeds traditionally serves this function, although in today's global economy it is easy to imagine that a private registry on the Internet or some other form of up-to-date database could just as reliably catalogue real property ownership. The only essential is that title be unshakable, readily transferable, and useful as collateral for loans. Any number of public or private solutions would suffice, so long as the process was precisely accurate and trustworthy.

The owner of land must be able to sell his property on his own, without seeking anyone else's permission--including that of the government. The owner of real property must also be able to use it as security or collateral to borrow money. That, in turn, requires that the lender have a speedy, legally reliable, and inexpensive way to acquire ownership of the property if the borrower defaults. To this end, Russia's regional governments would need to enact laws clearly defining every one of these aspects of ownership.

Finally, because "rights" in land are useful only if they are enforceable, Russia would need to establish a court system that could be trusted to enforce protections for private property owners simply and cheaply.

Establishing private property rights in land was one of the most important elements of building a free enterprise economy in place of Communism that Russia needed to undertake in 1992. By doing this, the destructive linkages to the remnants of the Soviet system could be cleared away, and the vast potential wealth in Russian land could be opened up as a source of start-up capital for individual enterprise.

Establishing Private Property Rights in Housing

Converting the existing stock of Soviet-era state-owned housing to private ownership, and legalizing the construction of more and better housing, was likewise an essential first step to build a successful free enterprise economy. The housing shortage in Russia in 1992 was symptomatic of the inherent problems of the Soviet system, including restrictions on business and individual ownership of residential real property.

The pseudo-privatization of Russian apartments illustrates the difficulty that both the Soviet and Russian political systems had in recognizing basic ownership rights. Just before the end of the Soviet Union in 1991, Russia had allowed some of its citizens to "own" their apartments at little to no cost. (By the end of 1993, 90% of Moscow residential property was theoretically "privatized" in this way.) But such "private ownership" was illusory.

Buying and selling apartment units was legally and economically difficult or impossible. Soviet-controlled rents--frozen since 1928--covered less than 5% of the operation costs. It was therefore impossible for "owners" to pay for property improvements.

The problem was exacerbated when the government, which remained the landlord for "privatized" housing, stopped paying for maintenance for newly-privatized apartments. Because their occupants did not truly "own" them (in the sense that an investment in improvements could translate to an increase in the owner's wealth), the apartments quickly fell into disrepair.⁷

Nor had the government nominally gotten out of the ownership picture; in fact, it had devolved the housing assets and responsibilities to municipalities as a way of relieving itself of the burdens of managing the apartments.⁸

The underdeveloped legal system that existed in 1992, with multiple overlapping jurisdictions and poor enforcement, was yet another contributor to the lack of a housing market in Russia.

Not only were the Russian Federation's property laws--the legacy of Soviet Communist ideology--hopelessly restrictive and confusing, but also the courts were unwilling or unable to resolve the conflicting mandates from federal, regional, and local authorities. A "war of laws" began as various levels of government passed conflicting mandates.

Nor was there any mechanism for resolving such conflicts.⁹ Statutory contradictions were left for individuals to resolve, with no recourse to any impartial interpretation of a person's rights or responsibilities under the law. Thus, the profitable use of residential real property was subject to arbitrary restriction, with little or no protection from the government.

In addition to the need for genuine privatization of housing, Russia needed private banks that would create a market in mortgages. In order for ordinary Russians to afford to buy an asset as expensive as a home, a convenient payment system over many years would be needed. The requirement was for a marketable mortgage with a term of 20 to 30 years at a reasonable interest rate.

In 1992, Russia had none of these things, and thus enjoyed none of the benefits of a free market. Little new housing was being created nor old housing sold. No new wealth was created in real estate. The absence of unassailable land titles, the absence of mortgage finance, the lack of unfettered rights to set prices for rents and for property itself--coupled with continued restrictions on the right to alienate real property--amounted to no free market at all.

The lack of a viable mortgage lending system had consequences well beyond a lack of adequate housing:

it deprived Russians of their most likely means of generating start-up capital for new enterprises. The only significant tangible asset potentially available to the average Russian was the home he or she occupied (and perhaps nominally owned). Mortgage finance could turn that home from merely a maintenance cost into an asset useful for generating wealth--an asset that has been the stepping-stone to the American Dream for generations of Americans working their way into the middle class.

If a competitive home mortgage industry were at work in Russia, first thousands, and eventually millions, of Russians could use their homes as collateral for small-business loans, creating the entrepreneurial competition needed to break up the Soviet enterprise network. Lacking this normal vehicle for supporting the nascent entrepreneurial class, however, the most entrepreneurial Russians were increasingly being forced to turn to illicit means to fund new businesses. The rest just didn't start businesses at all.

As much as any other factor, the inability of ordinary Russians to use their homes as a means to build businesses has slowed the creation of a broad middle class in Russia, and the realization of the economic and political benefits that it would bring.

The British magazine *The Economist* summed up the challenge for the development of competitive markets in Russian housing and mortgage finance:

Badly constructed houses, feckless owners, buyers with impenetrable personal finances, an untested legal environment, crooked and incompetent banks, and almost universal political interference in the economy. The reasons behind Russia's lack of mortgage lending are hardly mysterious.¹⁰

This well described the situation in 1992. Sadly, however, *The Economist* diagnosis was made eight years later in 2000. Nothing had changed.

Making Contracts Enforceable

Yet another basic building block of a free enterprise economy is the freedom to make private contracts, coupled with an effective mechanism for their enforcement. In 1992, Russians had neither.

Because Soviet enterprises were fully government-owned, the need for a fast, efficient, inexpensive, and fair system of resolving commercial disputes between private individuals and firms had never been recognized in the Soviet Union. Contracts between state-owned enterprises were relatively easily enforced: once a dispute was resolved by the appropriate government entity, the loser had little choice but to accept the judgment and act accordingly.

In most cases, moreover, the contracts themselves were dictated from higher levels--so neither party was in a position to question them.¹¹

In 1992, recognizing that a sturdy and reliable system of dispute resolution would be required to handle commercial disagreements between private parties, Russia enacted an arbitration code and established local arbitration tribunals throughout the country.¹² But this was not nearly enough: most Russian courts had no experience with arbitration awards, and they were often uncertain of the procedures required.

As a result, while the new law endeavored to legitimize private contracts, it failed in practice to guarantee truly useful contract rights.

Even when a court or arbitration panel could be made to stand behind a contract, the court's judgment was usually very difficult to collect. According to American analysts writing at the time, "the process of identifying, seizing, and converting the assets of the Russian party [against whom a contract judgment was rendered] to cash ... [was] likely to be tedious, time-consuming, and expensive."¹³

Moreover, without clear-cut property rights in land, buildings, and housing, few Russians owned any marketable assets that could provide the basis for enforcing a judgment in a private dispute.¹⁴

Russian firms attempting to operate in this environment in 1992 coped with the challenges through a variety of means, including "blacklists" of unreliable suppliers,¹⁵ penalties imposed by Russian membership organizations,¹⁶ and the use of organized crime groups as bill collectors and contract enforcers.¹⁷ These options were not readily available to foreign firms, however, with the result that the lack of enforceable contract rights served as a significant impediment to foreign investment in the Russian economy.¹⁸

Private Commercial Banking

Just as clearly defined property rights are essential to creating assets of real value, establishment of a private, competitive, legitimate, accessible, and reasonably-priced retail commercial banking system is vital to creating entrepreneurial opportunities.

Without private commercial lending, neither startups nor expansions of businesses could occur. And without the competition of new businesses, the Russian economy would forever remain captive to the network of formerly state-owned enterprises.

The banking system that Russia inherited from the Soviet Union performed none of the normal functions assigned to banks in the West. Instead of accepting deposits and using those deposits to make loans, Soviet banks acted as the financial arm of the government and of Gosbank, the Soviet Central Bank.¹⁹

Rather than make loans based on objective analysis of creditworthiness, Gosbank distributed and reallocated resources to favored individuals, companies, groups, and industries at the direction of the state.²⁰ The Soviet government also used Gosbank as a means to enforce quotas and production requirements, and its bank balances were a prime means for Moscow's economic planners to determine if their targets had been met.

Ending this role for the central government and enacting sturdy, understandable, and pro-competitive banking rules was thus of utmost importance in 1992.

Foremost in establishing a pro-competitive banking system is that banks must be able to maintain an arms-length relationship with industry. This is necessary to allow individual banks the ability to concentrate on the normal banking business of risk analysis, rather than on the implementation of government-dictated economic policies, the subsidization of favored individuals or organizations, or the management of industrial conglomerates. It is also important to avoid the perception of insider dealings between the banks and the companies.

In the Russia of 1992, there was ample evidence that no such arms-length relationship existed, and that neither the banks nor the government could be counted upon to obey or neutrally enforce transparent rules. In 1991, the Russian Supreme Soviet had passed a law mandating that savings accounts be indexed for inflation if prices were liberalized. However, when prices were decontrolled in January 1992, the law was ignored with impunity by the state-owned banks then operating in Russia. Over the next several months, 99% of the savings of the Russian population were lost.

Yet another challenge for Russia was to establish transparent accounting standards as a means of building public confidence in the banking sector.

For private commercial banks to begin the normal business of banking--that is, accepting deposits and making loans--the bankers themselves would have to be assured that they could make loans with the assumption of only a reasonable risk. For this reason, too, Russia needed to establish real property rights in law, honest and efficient courts, and legally useful means to enforce court judgments, so that bankers could use land and buildings as valuable collateral.

Finally, Russia would need to convert its Central Bank into an independent entity charged with setting monetary policy independent of political needs. This would establish confidence among the Russian public and foreign investors that they would be protected against capricious changes in the value of their currency, and from official corruption, thus encouraging deposits in the banking system and discouraging capital flight from Russia.

Repeal of Soviet-Era Regulations

The regulatory structure in the Soviet Union was omnipresent, allowing little deviation from state-determined norms. In 1992 the new Russian government inherited this panoply of regulations, and one of its first challenges was to repeal them. So long as Soviet-era regulations remained in place, there could be no free enterprise in Russia.

The regulatory regime that Russia inherited from the Soviet Union was nowhere more pronounced than in the control of prices--the primary mechanism by which Soviet planners had attempted to control all other aspects of production.

Government-administered pricing hurt both the quality and quantity of products. Prices were often so artificially low that firms faced a choice between producing inferior goods, to keep costs in line with the low prices, or producing goods of passable quality in quantities insufficient to meet public demand. In other cases, by arbitrarily setting prices too high for consumers, the government intentionally (or sometimes accidentally) decreased consumption.

Decontrolling prices was necessary to permit the economy to produce the high-quality goods and services the Russian people needed. Just as important, price liberalization would have to be across-the-board to avoid further disrupting the market.

As if to illustrate the latter point, partial price liberalization was undertaken in 1992. It injured and confused the public, for example, by creating anomalies where the prices of some goods that had not been decontrolled rose in spite of government restrictions. Meanwhile, prices for some other goods that

had been decontrolled remained stable, due to pricing by the market, while other decontrolled items soared in price.²¹

A series of export restrictions that limited firms' access to international markets further undercut the potential competitiveness of Russian firms. These regulatory impediments to reaching overseas customer markets made stripping a firm's assets more profitable than using them productively.

Regulations also forced the repatriation of export earnings, discouraging companies with export potential from fully reporting their earnings.

The regulatory regime that Russia had inherited from the Soviet Union was keeping the economy stagnant, and reinforced the predominance of the existing Soviet-era industrial and agricultural enterprises.²² Dismantling this supporting structure of regulations, which inhibited existing companies and limited the entry of new firms in established markets, was an important first step in dismantling the Soviet enterprise network.

Freedom to Fail

Implicit in a functioning market economy is the ever-present possibility of failure: the obverse of reward is risk. In the Soviet system, however, failure was impossible because state-owned companies were not allowed to go bankrupt. A never-ending stream of subsidies ensured that no matter how poorly a company performed, or how useless were its manufactures or services, operations would continue.

As newly-privatized firms were exposed for the first time to the semblance of market conditions that was emerging in Russia in 1992, many began to realize that their business models, their method of operations, or their products or services were wholly unsuited to the needs of their customers. In a market economy, unsatisfied customers mean insufficient revenues--and firms that do not adjust to meet customer demands quickly become unable to pay their suppliers and workers. As a result, they go bankrupt.

Bankruptcy in this sense does not mean that the firms, their assets, their employees, or their products would disappear. Instead, new management would be installed and the firm's operations could continue, or the company's assets would be sold and deployed for more productive purposes.²³

In 1992, Russia was plagued with hundreds of companies designed to function in a Soviet planned economy, and poorly equipped to compete in a free enterprise system. Even when reincarnated as newly-privatized companies, many continued to receive government subsidies to keep their money-losing operations afloat.

So long as it failed to give such firms the "freedom to fail," the Russian government would hurt the economy, and itself. The economy was hurt because resources were consumed inefficiently, taxes were kept high in order to pay the subsidies, and competition was stifled. The government was hurt because low sales and no profit left little to tax.

For all of these reasons, Yeltsin signed a decree on bankruptcy on June 14, 1992. But the declaration had little impact. First, it applied only to state-owned enterprises; bankruptcy of private and newly-privatized enterprises was not addressed.²⁴ Second, it *prevented* enterprises from being shut down, and prevented

large numbers of workers from being dismissed.²⁵ Indeed, when the decree was superceded by bankruptcy legislation in November 1992, it had not yet been used to shut down a single firm.²⁶

Nor did the 1992 bankruptcy law have more than limited impact. Though the law established conditions for both voluntary and mandatory bankruptcy proceedings, and directed the Russian government to establish procedures to liquidate bankrupt enterprises, it was largely aimed at preserving insolvent enterprises rather than eliminating them. Thus, one government official argued that "the first task" of the new bankruptcy law "is to help an enterprise survive."²⁷

As of 1992, the lack of a workable bankruptcy procedure denied Russians the freedom to fail, assuring that a large share of Russia's productive potential would not be realized, and therefore also denying Russians the freedom to succeed.

Reducing the Tax Burden

Russia inherited Soviet tax laws that imposed a crushing burden on individuals and firms trying to generate wealth. So-called "windfall profit" taxes on enterprises reached as high as 90%, almost entirely negating the incentives to build profit-making businesses.

For individuals, Soviet personal income taxes were set at 13%, although the hard-pressed citizenry routinely ignored the requirement with no consequences. In 1990, in an effort to raise revenue, the Soviet Union raised the top income tax rate from 13% to 60% and imposed a new 5% sales surtax.

On top of these taxes, the Soviet Union imposed an additional tax on wages intended to dissuade employers from raising workers' pay. The Communist central government feared that higher wages would fuel inflation, because there were so few consumer goods available.

This high tax-rate regime left the system of government finance Russia would inherit from the Soviet Union in shambles. Tax evasion was rampant. International lenders--seeing no end in sight to the country's economic woes--were reluctant to make new loans.

Even more destructively, as Russia took more authority from the Soviet government in December 1991, the Russian Supreme Soviet imposed a 28% value added tax on top of the taxes already in place--which not surprisingly failed to increase government revenue.

Likewise, the Soviet bureaucracy of overlapping and multiple tax authorities, which provoked widespread tax evasion, continued in independent Russia.

Both the Soviet and Russian attempts to raise tax revenue by squeezing the turnip did not and would not work. To the contrary, lower tax rates were necessary to improve business conditions, reduce barriers to entry for entrepreneurs, increase competition, and generate more business earnings that could be subject to tax. Likewise, tax simplification was necessary to discourage tax evasion.

Lowering the tax rate and simplifying the tax code would demonstrate that the new Russian government was not bent on redistributing income, as was the Soviet Union, but rather was serious about discarding the Soviet system in favor of a market economy.

Prescribing the Rules of the Road

Because private economic activity had been illegal in the Soviet Union, there were few norms to guide private commercial transactions. Therefore, the challenge faced by Russia's central and regional governments was to promulgate a basic set of rules that could be relied upon by any Russian citizen (or foreigner, for that matter) who wished to buy or sell something.

While a system of clear, straightforward rules for the conduct of private business was unknown in the post-Communist Russia of 1992, the free world had long since produced such rules.

The operation of commercial codes in the United States is nearly invisible, but they are an essential part of a market economy. Clear, understandable, and well-settled rules for such everyday events as sales and leases of private property, business credit, bulk transfers, warehouse receipts, bills of lading, and investment securities are the infrastructure of the free enterprise system.

Today, neither Congress nor the legislature of any state is much concerned with the pressing issues of 19th century commercial law that gave rise to these codes. But that is not because these issues have been overtaken by modern events; to the contrary, the old rules remain on the books, in largely the same forms in which they first passed into the legal mainstream. They work so well that we have mostly forgotten them. They are now so well-established that a man or woman of commerce need give no more thought to such a question as "at what point during shipment does title pass?" than to breathing or walking.

The history of the United States' adoption of its various state commercial codes also holds lessons for Russia. The United States' experience was strongly influenced by our federal system, where both the federal government and the individual states have the power to pass laws (and where commercial arrangements are largely governed by state law).

In the 19th century, as the demands of interstate business and individual movement throughout the country accelerated, a unique solution to the problem of developing a nationwide commercial legal infrastructure was achieved outside of government.

Neither the legislature of any state, nor the Congress, but rather private individuals comprised a non-government body known as the National Conference of Commissioners on Uniform State Laws. Formed in 1892 for promoting "uniformity in state laws on all subjects where uniformity is deemed desirable and practicable," the Conference has since proposed more than 100 laws that have been adopted by at least one state.

The greatest success of the "uniform law" approach in the United States has been in the field of commercial and business law. The Commission's first product, the Uniform Negotiable Instruments Law, was at one time in effect in all the states. Using this and the Uniform Sales Act (also widely adopted) as a basis, the Conference (working together with another private body, the American Law Institute) eventually produced the Uniform Commercial Code. The Uniform Commercial Code is now in effect in some version in nearly all U.S. jurisdictions.

The fundamental principle of the Uniform Commercial Code is the empowerment of individuals to reach agreements among themselves, without need of outside agencies of the state. Yet its greatest importance lies in the specification of what terms apply if the parties to a transaction *don't* mention something.

In the Russia of 1992, the lack of such clear rules meant that a butcher in Moscow could not make a contract with a supplier in Sergeiv Posad, an entrepreneur in Smolensk could not import fabric from overseas, and a builder in Chelyabinsk could not obtain lumber from a mill in Novosibirsk without incurring needless financial risk.

The overriding need for such rules in the Russia of 1992 was to provide certainty and predictability to economic transactions--a sharp contrast to the arbitrary dictates that had characterized the Soviet command economy. Particularly because of its lack of a tradition of private commercial activity, the enactment of a commercial code was a vital precondition for Russia's transition to a functioning market.

Welcoming Foreign Investment

Eliminating Soviet-era barriers to foreign investment in Russia was yet another basic step needed to construct a free enterprise system.

The climate for foreign investment that Russia inherited from the Soviet Union was a fundamentally inhospitable one. Not only were foreign investors deterred by the lack of market economy essentials--enforceable private contracts, private property rights, an established commercial code, competitive private banking, and a benign tax and regulatory climate--but also foreign investors faced unique obstacles that rendered any significant commitment to the Russian economy unthinkable.

The laws limiting expatriation of earnings were a unique burden on foreign firms seeking to invest in Russia. Capital controls limited a foreign firm's ability to return earnings from Russia to their stockholders. Further, government regulations discriminated against what activities foreign firms could engage in, creating uneven competition between foreign and domestic participants in the Russian market.

The Russian tax structure of 1992 likewise discriminated against foreign investment and trade. Even today, the average import tariff stands at 13%, the value-added tax on most imports is 20%, and the excise tax on most imported luxury goods ranges from 20% to as high as 570%. On top of that, Russia compounds various taxes when it assesses import levies. Combined with non-tariff barriers such as import licensing and customs processing fees, these taxes make the Russian market especially unattractive to foreign investors.²⁸ By keeping international trade out of Russia, these Soviet-era regulations reinforced the economic arrangements existing at the collapse of the Soviet Union. Instead of promoting competition that could serve as a model and a spur to Russian entrepreneurs, Russian law served to insulate the economy from these regenerating forces.

Tearing down these barriers to foreign investment was thus another key task facing the new Russia of 1992.

Creating a Market

The opportunities that awaited Russia in 1992 were exhilarating, but dismantling the Soviet system of government controls and erecting in its place a free market economy based on private decision making

and risk-taking was a task of monumental proportions.

Yet the means to achieve the creation of a free market economy were abundantly clear: the government's job was to get out of the way of the economy, and facilitate private actors through the establishment of enforceable private contract rights, private property rights, laws permitting private commercial banking, commercial bankruptcy laws, a commercial code, a much-moderated tax burden, and the repeal of Soviet-era regulations that inhibited both domestic and foreign investment and trade.

These fundamentals of a free enterprise system needed to be implemented quickly, or else "privatization" would be a sham: "privatizing" assets into a non-market economy would represent merely the continuation of the Soviet system, with the difference that the financial benefits would now accrue to a few private individuals. It would lead to the development of a kleptocracy masquerading as a free market economy.

What was needed was legality--the certainty that private property rights will be protected--and the effective competition that this would inevitably produce.

CHAPTER 4

THE FUNDAMENTAL FLAWS OF THE CLINTON ADMINISTRATION'S RUSSIA POLICY



THE TROIKA: Since 1993, U.S.-Russia policy has been administered by Vice President Al Gore (speaking on the telephone with Russian President Boris Yeltsin, July 24, 1998 from Moscow), Treasury Secretary Lawrence Summers (lower left), and Deputy Secretary of State Strobe Talbott (lower right). President Clinton placed Gore in charge of U.S.-Russia policy in early 1993. Summers, who carried the Russian aid portfolio in the Treasury Department from the beginning of the administration, is a long-time proponent of government-to-government lending programs. Talbott was Ambassador-at-Large and Special Adviser to the Secretary of State for the New Independent States before President Clinton nominated him to become Deputy Secretary of State in December 1993. In his previous career as a journalist, Talbott had been a persistent critic of the Reagan-Bush policies of peace through strength that precipitated the collapse of the Soviet Union. Troika policy operated outside of normal channels, suffered from a lack of presidential involvement, and focused on the personal relationships of presidential subordinates. Photos from top: AP Photo/Ivan Sekretarev, AP Photo/Ivan Sekretarev, AP Photo/Misha Japaridze

The [IMF] money is all spent. It went to foreigners and Russian speculators [who] took the money out of the country. To me, the huge surprise is not the appearance of such a scam in the country. But I cannot explain why the western financial institutions and the governments didn't pay serious attention to the presence of such things.

Dimitri Vasiliev, former Chairman of the Russian Federal Securities Commission, as quoted in the *Los Angeles Times*, September 24, 1998

We conned them out of \$20 billion.

Anatoly Chubais (Viktor Chernomyrdin's top deputy), as quoted in the *Los Angeles Times*,
September 9, 1998

*The truth about the IMF is that it has consistently pursued a
prudent, responsible, and forward-thinking lending program for
Russia.*

Leon Fuerth (Al Gore's National Security Adviser), July 25, 2000

A President Without a Plan

In 1992, Arkansas Gov. Bill Clinton and Tennessee Sen. Al Gore campaigned on the slogan, "it's the economy, stupid."

The Clinton-Gore decision to avoid all discussion of foreign policy was partly for tactical reasons: their political opponent, President George Bush, had just won a complete military victory in the Gulf War, and had presided as the leader of the free world at the conclusion of America's victory over Soviet Communism in the Cold War.

It was also a reflection of the genuine bias toward domestic affairs shared by both Clinton and Gore, whose primary focus had long been such issues as the environment and technology.

For both of these reasons, the Democratic candidates for president and vice president in 1992 neglected foreign policy more than any candidates in any national election since World War II. Despite the collapse of Communism in Eastern Europe, the dissolution of the Soviet Union, and the advance of a newly-free Russia--all of which presented America with its greatest foreign policy opportunity in the post-World War II era--neither Clinton nor Gore devoted noticeable energy to these historic challenges for America during the campaign year.

This gaping lacuna in the Clinton-Gore policy agenda was obvious in Clinton's 1992 acceptance speech at the Democratic National Convention. While the collapse of the Soviet Union merited the briefest mention, Clinton was absolutely silent on relations with the newly independent nation of Russia.¹ Gore's speech was even more inexplicable. He devoted relatively more time to foreign policy in his address, and yet gave neither the Soviet Union nor Russia specific attention.²

The primary focus of Clinton's three major foreign policy addresses during the 1992 campaign was actually the domestic economy. In each of these "foreign policy" speeches, the subject of Russia served as little more than a segue into calls for cuts in defense spending.

In December 1991, at Georgetown University, Clinton said: "We need to remember the central lesson of the collapse of the Soviet Union and of Communism itself. ... [T]he Soviet Union collapsed from the inside out, from economic and political and ultimately from spiritual failure. ... [F]oreign and domestic policy are inseparable in today's world."³ This determination to treat foreign policy as merely an auxiliary to domestic policy was maintained throughout the campaign.

The inattention to foreign policy during the Clinton-Gore campaign carried over into the new administration. A year into the Clinton administration, Secretary of State Warren Christopher was heard to worry that Clinton did not spend enough time on foreign issues "because the lesson of the campaign--that it's the economy--was over learned."⁴ One indication of Clinton's lack of interest in foreign policy was the fact that for the first two years of his administration, James Woolsey, the Director of Central Intelligence, had only two private meetings with him.

Clinton's occasional interventions in either the formulation or description of U.S. policy have frequently been counterproductive--as demonstrated by his comparison of the savage attempt to suppress Chechnya in 1994-96 to the American Civil War, and his reference four years later, during the even more brutal second Chechen war, to the Russian "liberation" of the devastated Chechen capital.⁵

No formal National Security Council meeting on Russia was held until February 1996, more than three years into Clinton's first term. This was two full months after a major Communist victory in the Duma, the Russian parliament.⁶ As late as 1996, the former candidate with no policy toward Russia had not yet personally focused on one as president.

Given his predilection to focus "like a laser beam on the economy," President Clinton delegated away virtually all of his authority over foreign and defense policy to subordinates. During the first Clinton term, U.S. foreign policy was, for the first time since President Woodrow Wilson's prolonged illness from stroke, conducted with minimal direct presidential involvement.

In a 1993 *New York Times* article entitled "Clinton and Foreign Issues: Spasms of Attention," Clinton aides described the president's first-term foreign affairs management style "as one setting broad guidelines, and paying spasmodic attention to different issues."⁷ Because the administration had no developed strategy for foreign affairs, the urgent quickly overtook the important. Relatively minor but exigent foreign policy crises in Haiti, Somalia, and Bosnia distracted Clinton from issues of more fundamental importance to the United States.

Without sufficient guidance from the top, Clinton subordinates bounced from topic to topic. The *Washington Post* reported, "the Clinton White House at times resembles a series of in-house graduate seminars."⁸ The disorganization was worsened by the free-form nature of policy making in the Clinton administration, where personal connections to the president trumped titles and formal processes.

The virtual absence of any non-ceremonial⁹ presidential involvement in foreign policy was to prove crippling to the development and execution of United States policy toward Russia. Only the president can effectively direct the resources of disparate federal bureaucracies and enforce consistent policy among competing agencies, policy makers, and priorities. Only the president can focus the attention of the American public and generate the necessary popular support for critical foreign policy initiatives.

The challenge of helping to build a free enterprise economy in place of Communism in Russia was as significant and complex as any that had faced the United States in its history. The failure of Russia, America, and the world to meet that challenge during the 1990s is very much a reflection of the lack of

U.S. presidential leadership.

A Troika Wrangles Over Russia Policy

The president's inattention to foreign policy in his first term created an environment in which nominally sub-cabinet level officials could assume control over even such a major foreign policy issue as Russia. The lack of an articulated presidential strategy for dealing with Russia, moreover, meant that such subordinate officials felt at liberty to fabricate their own plans. Particularly in Washington, where power abhors a vacuum, the attraction of ambitious underlings to this policy void was strong.

There were, of course, serious problems in this arrangement. Without adequate presidential involvement, there was no limit to the number of contenders for policy-making power. Moreover, there was no obvious mechanism for resolving policy disputes. The eventual devolution of Russia policy making into the hands of not one but three Clinton aides--a policy "troika"--was a direct result of these problems.

The troika who eventually took charge comprised Strobe Talbott, a journalist for *Time* magazine; Lawrence Summers, a 39-year old Harvard economist who had performed a two-year stint at the World Bank; and Vice President Gore, whose preparation for directing Russia policy was never previously noted.

Vice President Gore's role in Russia policy, like Talbott's, was the result of Clinton's explicit delegation. At the Vancouver Summit in April 1993, Presidents Clinton and Yeltsin agreed to the creation of a U.S.-Russia Commission on Economic and Technological Cooperation, to be chaired by Gore and Russia's Prime Minister, Viktor Chernomyrdin. Although this assemblage, which quickly became known as the Gore-Chernomyrdin Commission, was initially intended to focus mainly on cooperation in space and on energy issues, it grew to become the main vehicle for high-level U.S.-Russian interaction.¹⁰

Gore's lack of Russia experience was immediately evident. (Nor would the ensuing seven-year apprenticeship on the Commission remedy his deficiency in Russian history: on July 3, 2000, Gore referred, in prepared remarks, to "the Potemkin village in World War II where the façade of the village was presented to make it appear that it was a real town in order to fool the people."¹¹ The "Potemkin village," a universally known image from Russian history,¹² in fact refers not to World War II but rather to a story from the 18th century reign of Czarina Catherine the Great.)¹³ He did, however, have one connection to the Soviet Union. The recently-deceased Armand Hammer, who as CEO of Occidental Petroleum courted Soviet leaders from Lenin to Gorbachev, also courted Gore and his father and was a major Gore benefactor, contributing some \$500,000 of Occidental stock that is now in the Gore family trust. Hammer is reported to have introduced the younger Gore around during a trip to the Soviet Union.¹⁴

Gore arrived on his first trip to Russia as vice president in December 1993, the day after Russia's first post-Communist parliamentary elections--a major setback for the Clinton administration's Russian allies. The unfavorable election results caught the administration off guard: Gore and the administration's other Russia policy makers expected his visit to be a celebration of a reformist victory. Upon his arrival in Moscow, Gore denounced the results of the voting.

Gore also displayed an immediate penchant for large-scale International Monetary Fund lending to Russia, which would soon become the foundation of the Clinton administration policy. Dismayed that

not enough IMF debt was being obtained by the Russian central government, he launched a public attack on the IMF for attaching "unreasonable" conditions to its Russia loans.

Before Gore had returned to the United States, then-Treasury Secretary Lloyd Bentsen publicly tried to reaffirm pre-existing administration policy in support of conditionality for IMF loans. However, in a display of the Clinton cabinet's lack of involvement with Russia policy, the administration changed its position to match Gore's within two months.¹⁵

Strobe Talbott was named "coordinator" for U.S. policy toward the nations of the former Soviet Union in the second month of the Clinton administration.¹⁶ The new president's deliberately anti-hierarchical style led him to appoint such "coordinators" in order to give an individual crosscutting authority over all aspects of a policy question. According to one senior Clinton administration official, this expedient was adopted whenever "it looks like a presidential policy is going to require day-to-day management."¹⁷

A journalist whose only previous management background was running *Time* magazine's Washington bureau for five years, Talbott had no government, military, or political experience.¹⁸ He had first met President Clinton when they were both students at Oxford University. Subsequently, Talbott had been a prominent and controversial participant in the arms control debate in Washington during the 1970s and 1980s, arguing against the Reagan policies that eventually forced the collapse of the Soviet Union.

Talbott, even more than Gore, sought to become the full-time manager of U.S.-Russia relations and soon built his own policy making apparatus. He chaired the Former Soviet Union Policy Steering Group, which he said carried "a presidential mandate to coordinate all elements of administration policy toward the former Soviet Union."¹⁹ The group was composed of under secretaries from various government departments. These included the Departments of State, Treasury, Defense, Commerce, and Agriculture, as well as a representative from the Vice President's office--usually the foreign policy advisor, Leon Fuerth. Officials of other agencies also participated as required.

Lawrence Summers, then a subordinate Treasury official who had given a speech on U.S. policy toward Russia at the president-elect's Economic Conference in Little Rock, Arkansas in December 1992, acquired his Russia portfolio as a regular participant in Talbott's Working Group. From his new post as Under Secretary of the Treasury for International Affairs, Summers, too, was a strong supporter of IMF loans and economic assistance for Russia. His brief tenure as the World Bank's chief economist had left him with a belief in the efficacy of international financial institutions such as the World Bank and the International Monetary Fund.

This troika of subordinates, led by Vice President Gore, would soon come to dominate the Clinton administration's Russia policy, as it still does today.

In this way authority for the development and execution of Russia policy devolved to an elite and uniquely insular policy-making group without accountability to the normal checks and balances within the executive branch. The policy decisions that emerged were marked by the personal biases and predispositions of these three individuals, to the exclusion of competing analyses and recommendations from the national security, foreign policy, and intelligence professionals throughout the U.S. government. Their small circle soon became an echo chamber, reinforcing their own views and excluding independent information.

The structure of the policy-making troika left the rest of the government either unwilling or unable to critically assess the direction of the Clinton administration's policy. Since none of the three key policymakers was experienced in or skilled at administration, each relied on further delegation to attempt

to direct the large number of U.S. government agencies that are charged with diverse responsibilities for various aspects of Russia policy. This created another layer of bureaucracy that further insulated Gore, Talbott, and Summers from the traditional policy-making structures of the executive branch.

Ironically, the 1992 Freedom for Russia and Emerging Eurasian Democracies and Open Markets (FREEDOM) Support Act had explicitly recognized the critical necessity of coordinating both policy development and implementation in light of the numerous U.S. bureaucracies involved in Russia policy. To that end, the Act created the senior-level statutory position of Coordinator of U.S. Assistance to the New Independent States. But this was a different "coordinator" than the position to which Talbott was appointed; the legally-mandated position was never used effectively by the Clinton administration to coordinate Russia policy or activities.

The Talbott "coordinator" role failed to clarify Russia policy making, and doubtless rendered it less transparent. In some respects, Talbott's role was superfluous, or an interference, or both. Multilateral aid, for example, required coordination with international financial institutions as well as the allied nations, and could only be accomplished through established channels at the Departments of State and Treasury. Gore's U.S.-Russia Bilateral Commission further confused policy coordination by adopting its own competing policies.²⁰

An even more serious shortcoming of the troika policy-making structure was the didactic approach that Gore, Talbott, and Summers brought to their task. The supreme self-confidence that typified the first several years of the Clinton troika's policy making seems strangely anachronistic today, as the Clinton administration has taken to defensively emphasizing the complexity and unprecedented nature of the problems it confronted in Russia. The point, however self-serving, is accurate. If it had been appreciated in 1993, when the Clinton administration Russia policy structure was adopted, then the key decision makers could have approached their challenges with caution and humility, soliciting a full range of policy and factual views--and showing a willingness to revise or abandon opinions and initiatives as they were invalidated by events.

But neither Gore, nor Talbott, nor Summers approached their task in this spirit.²¹ To the contrary, the Gore-Chernomyrdin Commission, Talbott's Policy Steering Group, and Summers' IMF and World Bank portfolio were administered free from the constraints that routinely applied to others in the executive branch. Over time, as their reputations and political interests became ever more deeply invested in defending the path upon which they had embarked, they worked to avoid inconsistent information, and relied increasingly upon a handful of Russian interlocutors for both data and validation of the correctness of their approach.

Thus it was that a candidate with no foreign policy experience and no enunciated strategy for tackling the historic task of facilitating Russia's transition from Communism to free enterprise relinquished his responsibility for that task to a troika of strong-willed subordinates. Free from outside scrutiny, these individuals crafted a policy that soon resulted in damage both to U.S.-Russian relations and to the prospects for a democratic, free enterprise-oriented Russia.

There were several fundamental flaws in the Clinton administration's Russia policy that this unorthodox arrangement produced. These flaws included:

- * Support for and dependence on a few individual Russian officials instead of a consistent and principled approach to policy that transcended personalities
- * A focus on the Russian executive branch to the exclusion of the legislature and regional

governments

- * An impatience with Russia's nascent democratic constituencies that led to attempts at democratic ends through decidedly non-democratic means
- * An unwillingness to let facts guide policy
- * A preference for strengthening Russia's central government rather than building a system of free enterprise

Personalities Over Principles

President Clinton encapsulated the first fundamental error of his Russia policy in his first major address on that subject. His proposed "strategic alliance with Russian reform" was clearly different than an alliance with all of Russia. It necessitated that the intimate group of Russian supporters of Clinton administration policy be deemed "reformers"--while opponents of that policy, in both Russia's legislative and its executive branches, were called "reactionaries" or "opponents of reform." The success of the Clinton administration's policy thus became inextricably tied to the political success of their chosen reformers, and to the political failure of other factions in Russia's struggling democracy.

The "reformers" identified by the Gore-Talbott-Summers troika were clustered around acting Prime Minister Yegor Gaidar, and later his replacement Viktor Chernomyrdin. Talbott and Summers, in particular, quickly developed extraordinarily close personal ties with one of these people, Deputy Prime Minister Anatoly Chubais. Summers "always" met with Chubais when traveling to Russia.²² According to Thomas Graham, a former senior political officer at the American embassy in Moscow, these personal ties soon evolved into a partnership between small circles of senior officials in the United States and Russia.²³

The administration's definition of reform in Russia was based on the "Washington consensus," an economic model that emphasized macroeconomics over establishing the fundamental preconditions for a free enterprise economy. The Clinton administration, moreover, believed that its macroeconomic policies could not be implemented if it lost influence in the Russian government. The administration was thus rapidly drawn into Russian domestic politics as an active participant, bent on insuring that its handful of allies continued in power. To this end, billions of dollars in loans and aid would eventually be devoted to the political support of the Clinton administration's Russian partners.

Chubais became such a favorite of the Clinton troika that his presence or absence in the Russian government seems to have been a major factor in American policy. Thus, for example, U.S. officials expressed tepid support for additional IMF lending to Russia after Chubais was dismissed from the Russian government in late January 1996--but when it became clear that Chubais had taken over the Yeltsin presidential campaign, skepticism turned to enthusiasm. The IMF announced a \$10.2 billion loan less than one month later.

The Clinton administration unabashedly avowed its support for Chubais when discussing bilateral assistance programs as well. In February 1997, Richard Morningstar, the State Department's coordinator for assistance to the former Soviet Union, said:

When you're talking about a few hundred million dollars, you're not going to change the country, but you can provide targeted assistance to help Chubais.²⁴

In fact, the U.S. government gave substantial cash assistance directly to Chubais and his allies. A large portion of the \$285 million in U.S. government grants that were supervised by Harvard University's Institute for International Development²⁵ went to individuals and groups affiliated with Chubais. The incestuous arrangement was exacerbated by the fact that Summers' former colleagues at Harvard received the U.S. government contracts without any competitive bidding, and-according to the U.S. General Accounting Office-never provided an accurate accounting for the money. Indeed, two Americans involved with the Harvard-Chubais project reportedly remain under investigation by the Justice Department for abusing their access to inside information about Russia's economic plans for personal gain.²⁶



BAD DREAM TEAM: President Boris Yeltsin, Prime Minister Viktor Chernomyrdin, second left, and his two first deputies Anatoly Chubais, left, and Boris Nemtsov, right, meet in the Kremlin, March 26, 1997. Chubais ran Yeltsin's 1996 campaign and was his chief of staff before becoming first deputy prime minister. Then-Deputy U.S. Treasury Secretary Lawrence Summers, in an example of Gore-Chernomyrdin Commission spin, called Chubais and Nemtsov an "economic dream team" for Russia. The dream soon became a nightmare, as corruption and unsound policy led inexorably to Russia's economic collapse in 1998. For Chubais, however, there was a "dream" ending: after years of negotiating international loans for Russia, he became the head of Russia's electricity monopoly and one of Russia's most powerful "oligarchs"-and admitted "we conned them." AP Photo/ITAR-TASS

Summers' personal support for and closeness to Chubais was never more flagrantly on display than in the spring of 1997, when Chubais moved into a key post in the Russian government. In a description that subsequently became notorious, Summers announced that "an economic dream team" was now in place in Moscow.²⁷

Later, despite the fact that he was no longer a member of the Russian cabinet, and notwithstanding his prior supervision of the fraud-ridden "privatization" process, Chubais continued to receive exceptional access in Washington. During a May 1998 visit, he was received by Summers and Talbott in their homes, where they jointly worked out details of the July 1998 IMF loan that would burden the Russian government with further billions in debt on the eve of Russia's total economic collapse later that summer.²⁸

Rather than seeking out key Russian political figures beyond the increasingly corrupt Yeltsin inner circle, senior Clinton administration officials generally had substantive meetings only with their official counterparts, confining themselves to pro-forma discussions with leaders outside the government. While a broader guest list was included at large receptions and other events at the U.S. Embassy in Moscow, the format of these events brought too many people together for too little time for substantive dialogue to take place. (For obvious reasons, few Russian political leaders critical of the Kremlin insiders were willing to engage in frank discussions in such public settings, with their political opponents present.)

However, such embassy gatherings permitted the administration to claim it had consulted with Russian opposition politicians, without having to devote the time or effort to substantive, systematic discussions with the full range of the Russian political spectrum that was required in light of the historic challenge of supplanting Communism.

The administration displayed a similar indifference to the governors and legislatures in the 89 regions of the Russian Federation. Despite frequent lip service to outreach to Russia's regions, Clinton and his troika rarely devoted sustained attention to developments there-and almost never traveled outside Russia's capital.²⁹

The Clinton administration's exceptionally close personal relationship with its few official Russian interlocutors-a sharp contrast with its merely *pro forma* engagement with Russia's legislature, its opposition parties, and its regional governments-formed the narrow basis upon which was built the entire U.S.-Russian relationship. Contrary to the administration's claim, the alternative to this approach was not disengagement from Russia; rather, it was and is a broad and genuine engagement that reaches out to all Russians.

Chechnya: Personalities Trump Policies, Again

The conduct of the first and second wars in Chechnya, and the U.S. administration's long quiescence concerning it, reveal the tragic cost of the over-personalized Clinton Russia policy. Rather than acting forcefully to advance U.S. values and interests, the Clinton administration tacitly accepted Russia's agenda in Chechnya.

Because they believed Russian acceptance of their "reforms" was personal to Yeltsin, Chernomyrdin, and Chernomyrdin's successors, Clinton and Gore were long unwilling to criticize their "partners" for their actions in Chechnya. Despite calling the promotion of democracy and human rights in Russia a key administration goal, the Clinton administration said little and did less to justify that claim.

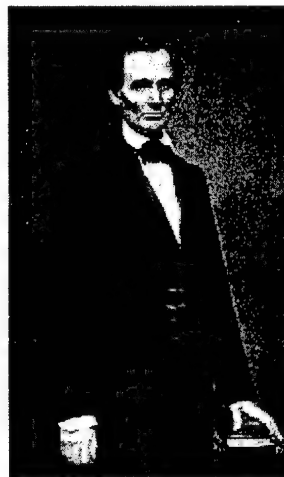
Russian troops committed widespread atrocities in both the first (1994-96) and second (1999-present) Chechen conflicts. Amnesty International has reported on "filtration camps" where "men, women, and children are routinely and systematically tortured: they are raped, beaten with hammers and clubs, tortured with electric shocks and tear gas."¹ Indiscriminate air, rocket, and artillery attacks on civilian targets killed tens of thousands of civilians over the course of the two wars, in which much of the Chechen capital of Grozny was razed and hundreds of thousands of Chechens, ethnic Russians, and other nationalities living in Chechnya were driven from their homes. The 1994-96 operation resulted in up to 80,000 casualties alone.²

Despite worldwide condemnation of Moscow's first brutal campaign, the administration was largely silent. When Secretary of State Warren Christopher met with Yeltsin in March 1996, he failed even to raise Chechnya as an issue. His staff explained it as an oversight.³

The low point, however, came a month later, when Clinton at his April 1996 summit meeting

with Yeltsin was asked "whether the United States should have been more critical of Russia's use of force, which has claimed more than 30,000 lives." Clinton responded, "I would remind you that we once had a civil war in our country in which we lost, on a per capita basis, far more people than we lost in any of the wars of the 20th century, over the proposition that Abraham Lincoln gave his life for, that no state has a right to withdrawal from our union."⁴

As the *New York Times* reported, "[e]ven Mr. Clinton's aides were appalled by [his] off-the-cuff remark"⁵—as well they might be. Clinton's comments ignored the difference between the union of American states, which shared a common language and culture since their beginnings and voluntarily formed a union less than a century before the Civil War, and the Chechen culture, which had developed separately from Russia's for centuries prior to its annexation in the nineteenth century.



ABRAHAM LINCOLN: *President Clinton, responding to a question in Moscow, April 21, 1996, about Russia's war against Chechnya, compared it to the U.S. Civil War and "the proposition that Abraham Lincoln gave his life for, that no state has a right to withdraw from our union." A few days later, the widow of Chechen president Dzokhar Dudayev told CBS News that Clinton's support for Russia's war in Chechnya had, "in effect, signed her husband's death warrant." A few hours after Clinton had compared Yeltsin to Lincoln, a Russian warplane rocketed Dudayev's car.*

Chechens speak a non-Slavic language, are predominantly Muslim, and have a distinct national culture. Chechnya did not freely join Russia; it was forcibly annexed by the czars after the Napoleonic Wars—an annexation the Chechens resisted ferociously for decades during a savage Russian campaign that took thousands of lives. The stubbornness of the Chechen resistance has been proverbial in Russia ever since.

More recently, after a brief period of independence following World War I, Chechnya was occupied again by the Bolsheviks. After its liberation from the Nazis in the Second World War, it was subjected to one of the most notorious of Stalin's many atrocities during 1943-44, when whole nationalities from the North Caucasus—including not only Chechens but Balkars, Ingush, and Karachai—were deported for alleged "collaboration" with the Nazis from their homelands to Central Asia under conditions that led to the deaths of as many as a third of the almost 620,000 deportees. The survivors remained in exile until the late 1950s, more than a decade after their ordeal began—further fanning their disaffection.⁶ A less persuasive parallel to the

history of the United States would be difficult to frame.

In addition to its inaccuracy, such a statement coming from the President of the United States undercut those in Russia protesting the purpose of the war, the high civilian casualties, and the human rights abuses taking place. Yegor Gaidar, Yeltsin's former acting Prime Minister, took his Russia's Democratic Choice Party into opposition against the Yeltsin government because of the war in Chechnya. But the party and the anti-war cause found no succor from the Clinton administration.

The Clinton administration's failure to ensure that there were any significant consequences for Russia for its conduct of the Chechen war for five full years--explicable only by its blind devotion to Russia's government elite and President Yeltsin personally--effectively put it on the side of Russia's military, and against ordinary Russians. Public opinion in Russia toward the first Chechen war (1994-96) was decidedly negative. Russians were opposed to a war they saw resulting in high Russian casualties caused by military ineptitude in the pursuit of Moscow's desire to exert its will over the people of Chechnya.

Worse, by pressuring the IMF to grant \$10.2 billion in credits to Russia in February 1996, the administration effectively used the Fund to subsidize not only Boris Yeltsin's reelection campaign, but also the Kremlin's war effort in Chechnya, thus squandering an important opportunity for American leadership, and giving Moscow every reason to expect similar indulgence if Russia again tried to crush Chechnya.

Following hundreds of deaths in September 1999 bombings in Moscow, Volgograd, and Buinaksk, which Russian officials said were the work of Chechen terrorists,⁷ the government had no difficulty marshalling support for its war aims. Anger over the bombings, the relatively low number of Russian military casualties in the early stages of the second war, and the decisive leadership Putin displayed after a lack of vigor in the Kremlin for so long made the second war popular with all segments of the Russian population. Virtually all the political parties participating in the December 1999 Duma election supported the war, and it was a significant reason for Putin's popularity.⁸

The failure of the Clinton administration to apply pressure and diplomacy to encourage a political solution in Chechnya may have actually encouraged Russia to broaden its war objectives in 1999. Originally, the military objective was to create a "cordon sanitaire" around Chechnya. Then the objective became to establish a security zone inside the Chechen Republic. With the popularity of the war at home and no penalty to pay abroad, the goal became the division of Chechnya along the Terek River. Finally, far from seeking a political settlement, the objective became the "complete extermination of the rebels and seizure of the entire territory of Chechnya."⁹

As former National Security Adviser Zbigniew Brzezinski testified recently:

[I]t is tragically the case that the administration's indifference to what has been happening in Chechnya has probably contributed to the scale of the genocide inflicted on Chechens. The Kremlin paused several times in the course of its military campaign in order to gauge the reactions of the West, yet all they heard from the president were the words 'I have no sympathy for the Chechen rebels.'¹⁰

Moscow's ultimate goal of reoccupying all of Chechnya necessitated the siege and capture of the Chechen capital of Grozny, which Russian troops had occupied and lost in the first

Chechen conflict. During the last months of 1999, Grozny was subjected to a savage rocket and artillery bombardment that caused massive collateral damage and heavy civilian casualties, triggering the flight of over 220,000 refugees. The devastated Chechen capital was then subjected to attack from five directions, beginning on Christmas Day 1999. It was largely in ruins by the time it was occupied in February 2000.

As the Russian attacks on Grozny were gathering momentum, President Clinton referred in a *Time* magazine article on New Year's Day to the impending Russian "liberation" of the Chechen capital of Grozny, already wrecked by the unrelenting Russian bombardment¹¹--a phrase, as Dr. Brzezinski testified, that "is going to haunt the president and embarrass the United States for a long time to come."¹²

Recently, the Clinton administration--at long last willing to acknowledge the horrors of the war in Chechnya--has nonetheless sought to absolve itself of responsibility by complaining that it has little leverage on Russia: as Secretary Albright stated after the G-8 summit, "I think, frankly, we have had a marginal effect" on the conflict. After dispensing over \$20 billion in U.S. aid to Russia during the course of eight years, using American leverage to force further tens of billions from the IMF and the World Bank, and having never conditioned any of it on a political settlement in Chechnya, that is a remarkable statement indeed.

The damage to Russia, Chechnya, and the region is broad. Former Premier Yegor Gaidar estimated in January 2000 that the war was costing Russia \$148 million a month.¹³ With Russia's limited resources, these funds could have made a sizable contribution to its economic recovery and debt service.

The Clinton administration's failure to respond meaningfully to Russia's treatment of Chechnya may also have encouraged Russia's efforts to intimidate its neighbors, and discouraged those nations from resisting such intimidation. As Dr. Brzezinski further told the Senate Foreign Relations Committee,

[S]ome of Russia's immediate and most affected neighbors, such as the presidents of Ukraine, Georgia, Azerbaijan, and Estonia, have been perplexed by the U.S. disregard of the longer-term effects on Russian foreign policy of Moscow's reliance on indiscriminate force in coping with Chechnya. Georgians are extremely vulnerable. We see some evidence of rising Russian pressure in Estonia and Latvia already. The Central Asian republics are beginning to make some degree of their own accommodation with Moscow, largely because of the way they interpret our passivity on Chechnya.¹⁴

These actions are fraught with risks for the stability and security of these nations and for U.S. interests in the region. Yet they too have drawn little effective response from the Clinton administration.¹⁵



CHECHEN WAR HUNGER: *The czars forcibly occupied Chechnya, and after a brief period of independence following World War I the Bolsheviks did the same. Solzhenitsyn described Chechnya as the "one nation that would not give in." The Chechen people continue to be the victims of fighting in the region. Azya Mirzoyeva, who lives in the train carriages of camp "Severny" in Ingushetia, gets one loaf of bread once or twice a week to share among seven people-and four bottles of sunflower oil, about as regularly, to share among 60. Amnesty International*



CHECHEN WAR REFUGEES: *Petimat Tursultanova witnessed the attack on the village of Zakhan-Yurt on November 6, 1999, in which a number of civilians were killed. She and her family wait overnight at the central railway station in Nazran to be assigned seats on a train out of Ingushetia. Amnesty International*

Clinton Administration Support for Rule by Decree Abets Destruction of the Russian Parliament

Not only was the group of Russian officials on which the Clinton troika focused too small and too insular, but it was limited exclusively to officials in Russia's executive branch. This was a tragic blunder, given that the essential task ahead in 1992 was enactment of the legal framework necessary for private property and free enterprise to function. The enactment of such laws would be impossible without the participation of Russia's legislative branch.

The Clinton administration not only failed to engage the Russian Supreme Soviet and the Duma, but, far worse, it publicly dismissed the parliament out of hand as a "Communist-dominated" impediment to reform. Because the Clinton troika's policy relied on the political ascendancy of a handful of ministers, opposition groups in the Russian Duma were seen as enemies of U.S. policy.

The Clinton administration very publicly sided with the Yeltsin regime against Russia's opposition parties, and more broadly, with the executive branch against the Russian legislature.

The Clinton troika's personal support for its allies in the executive branch reached an extreme in October 1993.

As tension between Yeltsin and the Russian legislature had grown since 1992, the Clinton administration

had encouraged Yeltsin to take a confrontational approach to the Russian legislature even as it limited its own contacts with legislators. In fact, when former president Richard Nixon advised Yeltsin in March 1993 to seek accommodation with the parliament, Yeltsin told Nixon that the Clinton administration had given him the opposite guidance.³⁰

When the Russian president took this confrontational advice, the Clinton administration's complicity in Yeltsin's subsequent rule by decree was complete. But it did not end there. The extent to which the Clinton troika undertook a personal crusade to denigrate Russia's elected legislature was illustrated by Strobe Talbott's public praise for Yeltsin's "[throwing] down the gauntlet in Moscow before a parliament that is dominated by reactionaries."³¹

Responding to growing and increasingly aggressive defiance from the leaders of the Supreme Soviet, Yeltsin, on September 21, 1993—in plain violation of the Russian Constitution—ordered the dissolution of the parliament and new elections. Parliament refused to obey Yeltsin's orders, and the standoff escalated into increasingly violent demonstrations in Moscow's city streets. Supporters of the legislature built barricades around the Russian White House, where the parliament had met in emergency session to replace Yeltsin with his former ally, Vice President Aleksandr Rutskoi, and where it was now entrenched.

The increasingly dangerous standoff culminated in an even more extraordinary violation of democratic norms, as opposition supporters stormed the mayor's office and sought to seize the Ostankino television station and Russian troops mounted an armored assault on the parliament members in the White House. The fighting killed 144 and injured over 400 Russians.

Shockingly, even after the bloody dissolution of the Russian parliament, Talbott continued to defend the Russian executive's anti-democratic conduct. Testifying before the House Foreign Affairs Committee just days after the attack on the parliament, Talbott said that the answer to the question of "whether President Yeltsin was resorting to democratic means in his effort to resolve the crisis was yes."³² Yeltsin himself was not so bold—he admitted in his memoirs that he had acted outside the Russian Constitution during the crisis.³³

A week later, Talbott was even more brazen in claiming that U.S. support for the violation of Russia's fundamental law could somehow be squared with support for democracy and the rule of law. In an October 13, 1993 briefing in the Capitol, he claimed that "our administration has staunchly and consistently supported President Yeltsin and the reformist government of Russia when President Yeltsin suspended the parliament *and the Constitution*"³⁴—thus standing the meaning of the term "reform" on its head.

The administration's encouragement and subsequent endorsement of President Yeltsin's dissolution of the Supreme Soviet in violation of Russia's then-controlling Constitution served to facilitate further authoritarian conduct by the Russian president. In profound ways, it worked also to deeply undermine respect for the rule of law among both participants in Russian politics and the public. The Yeltsin-Clinton administration policy was clearly based on force—and just as damaging, it was also deeply disdainful of the necessary role of Russia's elected legislature in enacting reform legislation.

Henceforth, Yeltsin would prefer to rule by decree, and the Clinton troika would encourage it. But the lack of respect for Russia's legislature from the U.S. government would increasingly be reciprocated, and the lessons of October 1993 long remembered.

Russia's new constitution, written by Yeltsin's team, was narrowly approved in December 1993. Yet

even after Russians elected the 1993 and 1995 State Dumas under the Constitution written by Yeltsin, the Clinton administration continued to ignore the newly elected members of the Russian legislature. The consistent excuse they provided for this was that the 1993 and 1995 Dumas, too, were "Communist-dominated." In fact, the most consistent opposition to the Yeltsin regime came not from the Communist Party of the Russian Federation, or even from Vladimir Zhirinovsky's ultra-nationalist Liberal Democratic Party of Russia, but from the pro-democracy, pro-reform Yabloko party.³⁵



NARROW FOCUS: Grigory Yavlinsky, right, the leader of the pro-reform Yabloko party, speaks with Deputies Igrunov and Sheinis in the State Duma, the Russian parliament's lower house, March 15, 1996. The Clinton administration strongly favored Yeltsin against Yavlinsky and all other contenders in the 1996 Russian elections, despite polls in Russia showing many voters were unhappy with both incumbent President Yeltsin and his Communist opponent, Gennady Zyuganov. In December 1999, merely suggesting Chechnya peace negotiations earned Yavlinsky a "traitor" epithet from Clinton troika-favorite Anatoly Chubais, who had by then become the head of Russia's electricity monopoly. Chubais was Yeltsin's 1996 campaign manager. AP Photo/Alexander Zemlianichenko

The Clinton troika studiously ignored Yabloko and its leader, Grigory Yavlinsky, because recognizing that a democratic party could oppose policies of the Yeltsin government would have called into question the administration's embrace of both Yeltsin and Chernomyrdin as the personifications of Russian democracy. Yabloko's existence contradicted the administration's repeated assertions that it had no choice in its Russia policy except to depend exclusively on Yeltsin.³⁶

At the same time, Yeltsin found rule by decree an increasingly attractive expedient to avoid the hard work of compromise with the parliament, further undermining the fragile democratic structures emerging in post-Soviet Russia. As always, he acted with the unflagging support of the Clinton administration.

Such unquestioning support for the Russian executive stifled the healthy debate necessary in a democracy, and taught Yeltsin exactly the wrong lessons about the importance of representative government in a constitutional system. Worse, the Clinton administration virtually guaranteed that the legal reforms needed to establish a genuine free enterprise system would not be enacted in the Duma, and it utterly destroyed America's credibility in dealing with Russia's legislative branch. Worst of all, however, was the role that the Clinton administration played in undermining the growth of pluralistic, democratic government in Russia-and the impetus it provided for the abuses of executive power by the Yeltsin administration that would shortly ensue.

Destructive Means to Unintended Ends

The third fundamental flaw of Clinton administration policy was its unwillingness to recognize the costs to Russian democracy-and to Russian perceptions of America-of its unquestioning support for its Russian "friends" despite their often corrupt conduct. The tolerance of decidedly illegal conduct, allegedly in pursuit of the rule of law, had profound and destructive consequences for Russia's struggle to establish the rule of law.

No single policy of the Russian government did as much to discredit the notion of reform as the corrupt "loans-for-shares" scheme. Devised by Soviet trade official-turned-banker Vladimir Potanin, and further developed by a consortium of Russian banks, "loans-for-shares" was implemented by Anatoly Chubais, the Clinton troika's key ally. In failing to oppose "loans-for-shares"-and continuing to endorse Chubais strongly after its scandal-ridden failure-the Clinton administration tacitly endorsed means that fundamentally undermined America's stated objectives in Russia.



OLIGARCH ETHICS: Oligarch Vladimir Potanin, left, speaks to Boris Nemtsov, right, of the Union of Right Forces, with the head of the Uralmash-Izhora industrial group Kakha Bendukidze, at a July 28, 2000 news conference in Moscow. Potanin designed the corrupt "loans-for-shares" "privatization" scheme that allowed the oligarchs to buy Russia's most profitable companies for a fraction of their value. He acquired one of the more valuable Russian companies, Norilsk Nickel. One week earlier, Potanin told the *Financial Times* that "Many oligarchs fly to the south of France in their private jets and rent yachts, they spend \$2 million-\$3 million a year, but then they put these costs down as business expenses. This is unethical." Also in July, the Russian government asked Potanin to reimburse the state \$140 million in connection with the privatization of Norilsk Nickel. AP Photo/Alexander Zemlianichenko

In 1995, Russia was under considerable pressure from the IMF and the Clinton administration to implement the IMF-Clinton troika program of increasing tax revenues to meet arbitrary budget deficit targets. The failure to enact legislation necessary for free enterprise, coupled with the rise of organized crime and the war raging in Chechnya since December 1994, was undermining the Russian government's ability to meet the aggressive tax collection goals. Russians' real income had dropped to the lowest levels since Soviet days. The Russian government desperately needed cash, but a new IMF loan at the moment seemed impossible since Russian government borrowing in 1995 had already soared to over 350% of the prior year's.

To meet the IMF and Clinton administration demands for more government revenues, Potanin, Chubais, and their colleagues devised a secretive plan in the spring and summer of 1995 for the Russian government to borrow money from Russian banks. As collateral, the government would offer stock in

premier state-owned industries.

The key feature of the "loans-for-shares" scheme was the proviso that if the government were unable to repay the loans, the banks would have the right to auction the shares-primarily in the energy, natural resources, metals, and manufacturing industries. Given the banks' ability to rig such auctions, and the fact that the loans were heavily over-collateralized, default by the Russian government would yield a bonanza for the banks' owners.

A number of observers believe the "loans-for-shares" scheme was actually designed with the intention of turning over these enterprises to the select insider group who were allowed to participate, and that from the inception the government neither intended nor was able to repay the loans.³⁷ The government needed money, and this was a way of getting at least a small amount of it while simultaneously accomplishing two other objectives: "privatizing" industries without Duma approval, and providing political friends with enormous new wealth through a non-competitive process. Some Russian officials apparently believed that the beneficiaries of "loans-for-shares" could then be counted upon as a powerful political constituency in favor of market reforms.

In its execution, the "loans-for-shares" scheme failed to produce a constituency for reform-the bankers' real interest was in increasingly lucrative sweetheart deals-but did succeed in winning the support of a powerful group of businessmen for the Yeltsin government in the upcoming elections. It is not difficult to see why: exceptionally valuable government assets were virtually given away at a fraction of their true worth. As one of the oligarchs commented with significant understatement, "each ruble invested in one's own politician yields a 100% profit."³⁸

When the shares pledged as collateral were eventually sold after the government failed to repay the loans they secured, the winning bid was almost invariably submitted by an affiliate of the bank managing the auction-and typically exceeded the minimum bid by only a nominal amount. Thus the "loans-for-shares" program essentially offered a select group of Russian bankers an opportunity to acquire cut-rate shares in prized state enterprises.

For example, despite Norilsk Nickel's \$1.2 billion in profits in 1995, Oneximbank-controlled by the designer of the "loans-for-shares" scheme, Vladimir Potanin-bought 38% of the firm, which produced one-fifth of the world's nickel and two-fifths of its platinum, for \$170.1 million in a "loans-for-shares" auction. Oneximbank's offer was only \$100,000 above the minimum bid-and a competing bank bid nearly twice as much. The fact that Oneximbank organized the auction was clearly decisive.³⁹

In the end, shares in twelve companies described as "the crown jewels of Soviet industry" were sold off.⁴⁰ The firms included not only Norilsk Nickel, but also the massive oil companies Sibneft, Yukos, and Sidanko and other key enterprises. Controlling stakes in Sibneft and Sidanko, each of which produced oil worth \$3 billion per year, were acquired for \$100.3 million and \$130 million, respectively. Ten percent of Sidanko was later sold to British Petroleum for \$571 million.⁴ Yukos, one of the largest oil companies in the world, produced more oil than Sibneft and Sidanko combined, yet control of the firm cost a Russian bank only \$159 million.⁴²



NORILSK NICKEL: Norilsk is the world's largest city north of the Arctic Circle, and Norilsk Nickel, a sprawling collection of profitable nickel, platinum, and palladium mines and hulking smelters, is the sole reason 230,000 Russians live in such a harsh place, where they work in mines and smelter shops such as this one, the Norilsk subsidiary, Nadezhdinsky Metallurgical Works. Despite Norilsk Nickel's \$1.2 billion in profits in 1995, the well-connected Oneksimbank was able to buy 38% of the firm—the world's leading platinum producer—for a mere \$170 million. Oneksimbank made its killing by exploiting the notoriously corrupt "loans-for-shares" program designed by Vladimir Potanin and pushed through by Anatoly Chubais. AP Photo/Alexander Zemlianichenko

But while the corrupt "loans-for-shares" program passed valuable state assets into the hands of a small circle of well-connected bankers, it provided far too little money to solve the government's cash crisis. Ultimately, the total revenue obtained through "loans-for-shares" was only about \$1 billion—about half the privatization revenue sought by the Russian government in 1995.⁴³ Boris Fyodorov, Russia's former Finance Minister, publicly described the "loans-for-shares" transactions this way:

It's very clear to me that once you start giving the crown jewels to cronies, it never helps, first, the image of the country. Second, it doesn't help the budget, because not enough money comes into it.

[The "loans-for-shares" program] was a disgusting exercise of crony capitalism, where normal investors were not invited, where even among Russian so-called investors, only those who were friends of certain people in the government were invited.

And since everybody knew that these loans will never be returned, clearly it was a kind of a gimmick how to circumvent parliament in this case, and how to circumvent normal ideas of privatization.

There is absolutely nothing which will preclude me [from] saying that it was basically stealing. [T]his is a major, major black spot on the reputation of Russian reforms forever.⁴⁴

Furthermore, said Fyodorov, "There's a big suspicion that no real cash came to the government."⁴⁵

Ironically, the funds used to purchase shares in the auctions probably included a great deal of the Russian government's own money.⁴⁶ Many of the top Russian banks whose owners benefited handsomely from "loans-for-shares" were successful not as a result of genuine banking activity in the private sector but through their roles as so-called "authorized banks" that handled government funds. Authorized banks were supposed to receive funds from the Ministry of Finance or other government organizations and transfer the money to its intended recipients. However, with the influx of so much hard currency from the IMF and other Western sources, many of the bankers soon discovered that delaying those payments allowed them to use government funds to speculate on currency markets or make other short-term investments, and to keep the profits for themselves.⁴⁷ Only in this fashion could the banks amass

sufficient capital to participate in the "loans-for-shares" auctions.

What did the Clinton troika and the IMF know about "loans-for-shares"? According to Fyodorov, the West knew everything. "These loans-for-shares unleashed a wave of corruption like never before," Fyodorov said, "and the West, especially the IMF, kept quiet."⁴⁸ Although Secretary Summers testified before the Advisory Group that he had advised the Russian government against the loans-for-shares scheme,⁴⁹ the administration's failure to object publicly or use its vaunted personal relationships with the Russian leadership to modify a catastrophic approach is a policy failure of the first magnitude.

Far from consolidating a new capitalist order in Russia, "loans-for-shares" consolidated the power of the "semibankirshchina"--the oligarchic "Rule of the Seven Bankers" who as a result of the loans-for-shares scheme claimed to dominate 50% of the Russian economy. This oligarchy has proven to be a crippling impediment to the development of a true free enterprise system in Russia, as well as exercising a profoundly corrupting influence over Russia's nascent democracy.⁵⁰

The Clinton troika's willingness to avert their eyes from the corrupt acts of their personal contacts in the Russian government contributed to the widespread electoral irregularities of the 1996 presidential election in Russia--many of which were direct outgrowths of the "loans-for-shares" process.

In February 1996, Anatoly Chubais--just fired by Yeltsin in part as a result of public outcry over "loans-for-shares" and mounting popular anger over Russia's vast wage and pension arrears--held a decisive meeting with several of the key beneficiaries of "loans-for-shares" on the sidelines of a session of the World Economic Forum in Davos, Switzerland. Chubais reportedly convinced the new "oligarchs" that their support for Boris Yeltsin's 1996 reelection campaign (which Chubais would soon take over) was essential to prevent the victory of Communist leader Gennady Zyuganov--and the prompt re-nationalization of their ill-gotten gains.⁵¹ During the campaign, the oligarchs illegally channeled vast amounts of money into the Yeltsin campaign and promoted Yeltsin heavily in media outlets under their control, including two major national television networks and a number of prominent newspapers.

The Clinton administration justified promoting Yeltsin's candidacy even in a multi-candidate field by claiming that it was in the U.S. interest to defeat Communist leader Gennady Zyuganov. But opinion polls show that both General Alexander Lebed and Yabloko's Grigory Yavlinsky were also credible candidates at the time--Zyuganov was hardly the exclusive alternative to Yeltsin, who had single-digit approval ratings at the beginning of the year.

Donald Jensen, Second Secretary of the U.S. Embassy in Moscow from 1993-1995, criticized the administration's simplistic approach to Russian politics:

The choice was always black or white. The choice was always reform or going back to the Soviet past. And that, I think, was oversimplified, did not reflect what was going on in Russia. And it was something that we began to write about increasingly and, of course, little attention was paid to it.⁵²

It is probable that Yeltsin, with all of the legitimate advantages of incumbency, would have won the election honestly; but the Clinton administration chose not to test that proposition. Working with Yeltsin campaign manager and troika favorite Anatoly Chubais, the Clinton administration pushed through a new \$10.2 billion International Monetary Fund loan in March 1996 that provided liquidity not only for the Russian central government but for the Yeltsin campaign.

There were many allegations of campaign finance irregularities tied to abuse of these IMF funds and

misappropriations from the Russian treasury.⁵² At one point between the two rounds of the election, two Yeltsin campaign staff members were detained leaving the Russian White House with \$500,000 in a Xerox box.⁵⁴ Expenditures on Yeltsin's reelection effort exceeded Russia's legal campaign spending limits by orders of magnitude.⁵⁵

The Clinton administration's complicity in the anti-democratic maneuvering⁵⁶ was, ironically, undertaken for the stated purpose of institutionalizing democracy in Russia. But by pursuing a policy of "reform" that required the political victory of *their* reformers by whatever means necessary, the administration undermined the democratic process itself.

Ignoring and Spinning 'Inconvenient' Facts

Perhaps the gravest consequence of the Clinton administration's *de facto* troika arrangement was that it insulated policy making from the substantial volume of data and analysis generated within the normally functioning channels of the U.S. government, permitting a handful of officials to press full speed ahead in a manner that shut out facts and proved incapable of either mid-course corrections or admission of failure.⁵⁷ Operating at the very top of the bureaucratic pyramid and accountable to no one, these few could effectively reinforce one another's rationalizations for viewing failure as success, and market this view as fact to the American public and the world.

The corruption of the Russian "privatization" program even before the loans-for-shares scheme is an important example of the Clinton administration's unwillingness to adjust policy to facts, or ever to acknowledge failure. The administration's support for the program persisted even as it was hijacked by former Communist insiders who possessed Russia's only real assets.

Beginning in October 1992, the so-called "voucher privatization" program provided for each Russian citizen to be issued a voucher with a face value of 10,000 rubles, redeemable for state property (at then-prevailing exchange rates the equivalent of about \$32, or six times the average weekly wage in Russia). The scheme was devised by troika partner Anatoly Chubais's U.S.-funded Russian Privatization Center, with the assistance of the U.S.-funded Harvard Institute for International Development and the U.S. Agency for International Development (AID). Thomas Dine, then AID Assistant Administrator for Europe and the New Independent States, testified before the Senate Foreign Relations Committee in October 1994 that "USAID expert advisers helped Russian counterparts in designing and implementing the voucher system."

According to Dine's testimony, the "structured reform process" of establishing the basis for a competitive, free enterprise economy was not a prerequisite for putting state monopolies into private hands. Rather, only after completion of the voucher privatization program would the Clinton administration plan "advance to the next logical steps in the structural reform process." In other words, creation of an authentic free market environment was to follow conversion of control over Russia's industrial assets into privately-owned assets of Russia's new oligarchs.

This decision would have disastrous consequences for Russia and her people. A small group of insiders acquired the preponderance of the vouchers for themselves, leaving ordinary Russians as powerless as before. The valuation of the industrial assets exchanged for the vouchers was manipulated for the benefit of these same insiders. And once in control, they were able to strip the assets for piecemeal sale, leaving Russia without even the productive capacity that these former state-owned monopolies had provided,

and with no market-based competitors to fill the void. Essentially, enterprises were turned over to Soviet-era managers and others intent on stealing their assets. Modernizing and adapting to market conditions was not on the minds of Russia's "new managers." There were neither incentives nor resources for investment, without which enterprises were doomed to fail.

Moreover, millions of U.S. taxpayer dollars provided directly to the Harvard Institute, and indirectly to Chubais and the Russian Privatization Center, would be unaccounted for.

Yet both during and after the implementation of the voucher privatization program, the Clinton administration hyped it as a policy triumph, with no regard for the realities of the situation. The vouchers were intended to be used for the purchase of shares in any of the more than 5,000 companies slated to be privatized before 1994. But the hyperinflation of 1992 increased the need of average Russians for cash, so instead of investing for the long term by using the vouchers to purchase state-owned property, many Russians sold their vouchers to well-financed former Communist speculators for the best price available.

The U.S. planners, under Chubais' direction, made no adjustment for this. As a result, those who had financially profited during the Soviet regime, or who had connections to the Chubais clan, accumulated enough vouchers to purchase control of many state enterprises during this period. Indeed, the millions of dollars in U.S. aid funneled through the Harvard Institute and the Russian Privatization Center-which the Russian equivalent of the U.S. General Accounting Office described as "over funded and largely an instrument in search of a mission"-may have funded the speculators.⁵⁸

Moreover, the appraisals by which each industry was valued (to determine the quantity of vouchers necessary to acquire it) were not routinely conducted at arm's length. Those with connections to the government were able to manipulate the valuation to their advantage. In this way, assets of significant value were acquired at cut-rate prices.

In the end, most Russians-as they saw the wealth that had been channeled from the state to the new oligarchs-felt they had been wrongly deprived of their piece of privatization. The experience gave many Russians a sour taste of what they believed was capitalism. The immediate result was that millions of Russians who had previously been enthusiastic about "reform"-and who were prepared to wait and endure while the infrastructure of free enterprise was built-now wanted none of it. A common pun in Russia during this period substituted "prikhvatizatsiya"-"grab-it-ization"-for "privatizatsiya," the Russian word for privatization.

Notwithstanding the perverse results of Russia's non-market "privatization," the Clinton administration was eager to peddle a success story. No superlative was spared. "The privatization program carried out by Deputy Prime Minister Anatoly Chubais has been nothing short of remarkable," Summers testified in February 1994.

Summers drew attention to figures showing 70% of all small-scale shops and 7,000 large firms had been "privatized." Like the Soviet system that was being privatized, Summers focused on quantity rather than quality⁵⁹ without remarking upon the fact that no new competitors had been created. Removing assets from state control was deemed "privatizing" even though the management of many of the privatized firms continued unchanged, and even though they remained monopolies operating in a non-competitive, non-market economy.

"The difficult decisions of how to modernize Russia's companies rest in private hands,"⁶⁰ Summers stated categorically, despite the fact that two-thirds of Russia's industrial labor force remained under state ownership and control.

Others in the Clinton administration followed suit. In AID's 1995 annual report of its Russia work, it described Russia's progress in "privatizing its economy" as "remarkable." Three sentences later, however, the report acknowledged the major reasons the process wasn't working: "Development of the legal, regulatory, and institutional infrastructures necessary to permit the newly-privatized companies to attract investment and to restructure and reorient their operations to compete in the global marketplace is still in the early stages."⁶¹

Notwithstanding "spin," the latter assessment still remains true today.

Subsidizing Government Instead of Building a Free Enterprise Economy

Relentless "spin" in the face of the facts was not limited to the results of "privatization." The Clinton troika claimed wondrous results for their financing of the Russian central government with International Monetary Fund debt, as well.

When Deputy Secretary of State Strobe Talbott testified before Congress in March 1994, he presented a picture of Clinton administration economic assistance producing improved standards of living for ordinary Russians. "Our assistance to promote economic reform targets projects that lead to tangible improvements in the lives of ordinary people," he said. ⁶² But Talbott's claim flew in the face of virtually all indices pointing to a significant deterioration in the standard of living for the vast majority of Russians.

The focus of the Yeltsin "reformers" on strengthening the finances of the Russian government and on transforming state-owned monopolies into private monopolies-instead of building the fundamentals of a free-enterprise system-reflected the priorities of their Clinton administration and IMF advisers.

The Clinton troika placed the highest priority on macroeconomic planning worked out between the Russian central government and the IMF, rather than on the free enterprise fundamentals necessary to ensure the successful transition from Communism to a free market. Because the administration chose to focus primarily on the financial predicament of the Russian central government instead of putting in place the legal fundamentals that would permit individuals to start businesses, grow the economy in that way, and create a tax base for the government, U.S. and IMF economic assistance to Russia amounted to mere temporizing.

Worse, the Clinton administration virtually guaranteed that the billions of dollars in lending and aid that it was providing would be wasted by allowing its use to plug the gap in the Russian central government's operating budget, and by exposing these funds to theft and fraud.

Former Russian Finance Minister Boris Fyodorov, who met with the Speaker's Advisory Group on Russia on July 12, 2000, has derided the Clinton troika's reliance on IMF loans as a means of supporting Russia. "The roughly \$20 billion pumped into the Russian budget over the last decade have, in fact, had no positive effect whatsoever," he wrote in the *Wall Street Journal*. He continued:

This is not surprising, given the black-hole nature of the Russian budget. Money, being fungible, was misspent and ended up in the hands of a few well-connected people and in Western banks. Russian citizens definitely did not benefit from this 'assistance,' judging by

the pitiful state of healthcare, education, public security, roads, and nearly every other public sector.

Why reform anything in Russia if another IMF loan shipment is on its way and past scandals can be swept under the carpet?⁶³

Nevertheless, the centerpiece of the Clinton administration's Russia policy was the provision of massive amounts of aid to the Russian central government through the IMF and directly from the U.S. Treasury. At President Clinton's first meeting with the new Russian president, he promised \$1.6 billion in aid. At Clinton and Yeltsin's next meeting-during the Tokyo Economic Summit, in July 1993-Clinton offered \$2.5 billion more in direct, unconditional aid.

The 1993 Tokyo promise was not only functionally unconditional, but seemed to serve as a reward for Russian inaction on legislation to protect private property rights-coming as it did just as Russian reform was reaching a virtual standstill. The timing of the new aid was rendered even more inappropriate by the fact that the Clinton troika were then facing bureaucratic and logistical obstacles to delivering already-promised U.S. aid to the Russian government.

Meanwhile, in addition to this direct U.S. foreign aid, the administration was also pushing for billions more in IMF loans to the Russian central government. This aid continued despite the repeated violation of the unenforceable macroeconomic conditions attached to the loans, and despite the worsening Russian economic performance that had gone hand-in-hand with previous IMF lending.

All told, since 1992 the United States alone has paid more than \$20 billion into the Russian central government, both directly and through multilateral institutions.

U.S. Financial Aid to Russia — 1992-1999

	in millions
U.S. Commercial Financing and Insurance (Ex-Im Bank, OPIC, USDA)	\$8,890
Non-FREEDOM Support Act Funds ^a	\$3,960
International Monetary Fund ^a	\$3,830
FREEDOM Support Act ^a	\$2,260
World Bank ^a	\$1,050
European Bank for Reconstruction and Development ^a	\$ 306
TOTAL	\$20,290

SOURCES: IMF Summary of Disbursements and Repayments: Russian Federation, World Bank Country Brief, EBRD Activities in Russia, Dept. of State "U.S. Government Assistance to and Cooperative Activities with the New Independent States of the Former Soviet Union: FY 1999 Annual Report (January 2000)"

Absent a functioning free market economy, Russia lacked the ability to assimilate such enormous sums without their being absorbed by the state. No private institutions were equipped to handle or

intermediate such amounts.

For its part, the Russian government lacked the facility to turn these massive aid flows into competitive economic activity. Instead, the aid had the opposite effect: it made possible the subsidies to the Soviet enterprise network that allowed it to continue in operation. Large-scale international assistance thus contributed to Russia's problems by killing incentives for legislative reform, and propping up a government whose policies were bankrupting the Russian people.

There were long term adverse consequences as well. The flood of loans added to Russia's growing foreign debt, which continues to burden the central government's operating budget and weigh down the nation's economic prospects.

To a certainty, some of the funds financed the oligarchs in Russia whose agenda was to obtain and preserve their favored position in the economy. These oligarchs, in turn, became a powerful constituency for the corrupt status quo. In this way, too, U.S. policies have actually made reform more difficult.

The highly visible infusion of so much money into the Russian government with no resulting market competition fueled public skepticism, making real economic reform less popular and therefore less likely. Would-be Russian entrepreneurs were discouraged by the apparent aid to oligarchs. From the beginning, the prospect of massive hard-currency transfusions into Russia had created false expectations, and when they were not met the result was ill-will toward the West. "[W]hen the vast expectations borne of such massive financial support collided with Russia's grim realities, serious political difficulties were in store," Gaidar has summarized.⁶⁴

Russian officials and the Clinton administration failed to recognize that without a market economy to support market reforms, government efforts-both the United States' and Russia's- were doomed to failure. The "privatization" of state companies was carried out in a vacuum, absent basic elements of a free enterprise system including unquestioned property rights, a modern commercial code, the right to make and legally enforce private contracts, readily accessible mortgage lending, and a comprehensible regulatory and tax system. The logical result of such non-market "privatization" of state monopolies was chaos.⁶⁵

Joseph Stiglitz, former Chief Economist and Vice President of the World Bank, succinctly described this fundamental flaw in the Clinton troika approach. Those advising the Russian government, Stiglitz argued, "consisted largely of macroeconomists, whose faith in the market was unmatched by an appreciation of the subtleties of its underpinnings-that is, of the conditions required for it to work effectively."⁶⁶

But at the time, both the World Bank and the IMF seemed not to appreciate the importance of establishing the conditions required for a free enterprise economy to work, either. In a December 1993 memorandum entitled "Economic Reform in Russia: Lessons from Experience," prepared by staff of the two organizations, the "accomplishments" in the first two years made no mention of the establishment of market prerequisites. The memorandum's list of tasks that remained to be done similarly excluded virtually every one of the fundamental building blocks of a free enterprise economy that Russia since 1992 has urgently needed to enact.

The ultimate problem with the Clinton administration's economic policy was that the vast amounts of money that were poured into Russia's central government-in the form of both bilateral and multilateral lending and direct aid-became a substitute for and an impediment to the changes that were necessary to move Russia from Communism to free enterprise.

Conclusion

The Clinton administration's policy toward Russia was undermined by the president's declination to make it a presidential-level priority for the United States. The de facto delegation of his responsibility to a policy-making troika of Vice President Gore, Strobe Talbott, and Lawrence Summers led to bureaucratic disarray within the administration caused by the troika's assertion of top-level authority over programs relating to Russia more properly administered under the direction of cabinet secretaries and agency heads, subject to the normal executive branch checks and balances. The Vice President's use of the Gore-Chernomyrdin Commission to dispense benefits to Russia outside normal channels was a particular cause of poor coordination and duplicated efforts.

This structural failure exacerbated several deep flaws in the administration's approach to the greatest foreign policy opportunity for the United States since World War II.

The Clinton administration has often sought to defend its catastrophic policies in Russia by arguing that it had "no alternative." But there were alternatives to administration policy at every step. United States policy could have engaged broadly with Russia at any time in the past eight years. It could have emphasized the development of the necessary building blocks of free enterprise instead of massive, effectively unconditional IMF lending to Russia's central government. And it could have stopped enabling Russian corruption.

It is quite correct that Russia is responsible for its own decisions and was never America's to lose-or for that matter to win. But it is even more certainly the case that Russia in 1992 stood ready to become a free enterprise democracy and a close friend of the United States, and was prepared to accept American advice on how to achieve that result. To the extent that U.S. policy made a difference in Russia, it made conditions worse, not better. President Clinton, Vice President Gore, Strobe Talbott, and Larry Summers did not "lose Russia." But the policies they pursued did hurt Russia--badly.

CHAPTER 5

THE

GORE-CHERNOMYRDIN

COMMISSION



GORE-CHERNOMYRDIN: Vice President Al Gore and Prime Minister Viktor Chernomyrdin embrace Sept. 24, 1997. The Gore-Chernomyrdin Commission failed to serve its stated function of ensuring implementation of decisions made at the presidential level. Instead the Commission became the primary forum and vehicle for U.S. policy toward Russia. Yet the Commission was deeply flawed by its own structural defects-the need for a facade of success regardless of the reality; an excessive dependence on personal relationships that left the United States ill-prepared when Russia changed players; and a willful blindness to conflicting information about Russian affairs from sources outside the Commission's staff bureaucracy. As the Commission came to dominate U.S.-Russia policy, these flaws infected the entire bilateral relationship. AP

Photo/Pool

The Gore-Chernomyrdin Commission is the instrument through which the good intentions and principles articulated first by me and then by Boris Yeltsin have made the United States-Russia partnership the success it is.

The life of the nations is not contained in the lives of a few men, for the connection between those men and the nations has not been found. The theory that this connection is based on the transference of the collective will of a people to certain historical personages is an hypothesis unconfirmed by the experience of history.

Leo Tolstoy, *War and Peace*, 1869

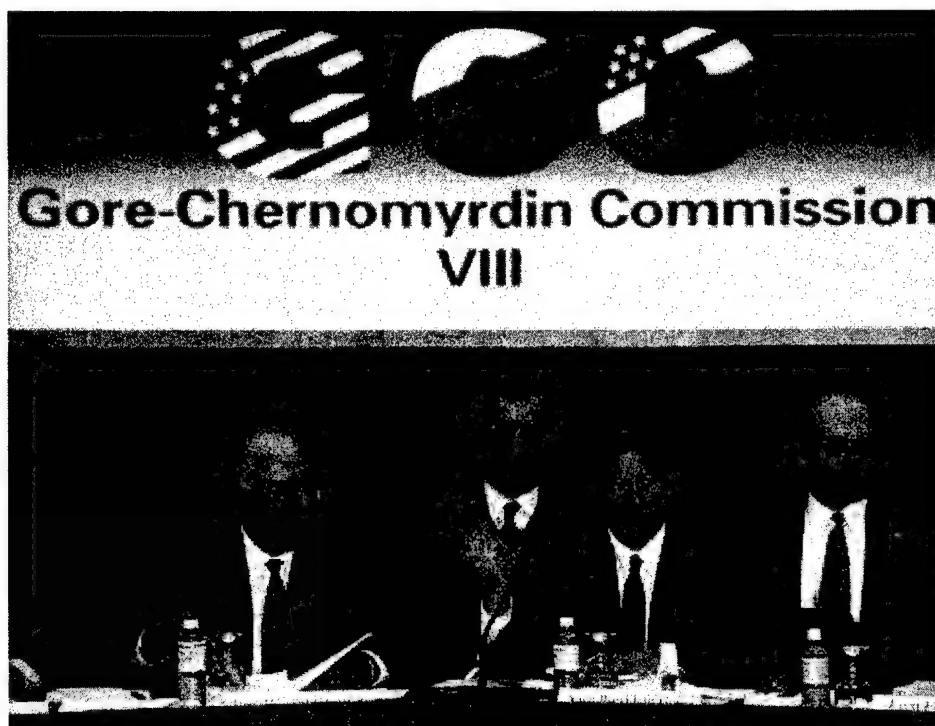
Delegating Duties

In April 1993, during his first meeting with President Yeltsin, President Clinton effectively delegated the management of U.S.-Russian relations to Vice President Al Gore. The "U.S.-Russia Commission on Economic and Technical Cooperation" was to be co-chaired by Gore and Russian Prime Minister Viktor Chernomyrdin. The first task of the Gore-Chernomyrdin Commission--as the Commission was soon popularly known--was to promote cooperation between the United States and Russia on space and energy issues.¹

At the April 1993 Vancouver summit, a joint Yeltsin-Clinton statement explained that the Gore-Chernomyrdin Commission would assume even broader powers: "In particular, working groups will be set up involving high-level officials of both governments with broad authority in the areas of economic and scientific and technological cooperation."²

By the end of 1993, the Commission's role had been expanded to include the full range of U.S.-Russia relations. According to the vice president's chief foreign policy adviser, Leon Fuerth, in remarks at the Foreign Press Center on December 22, 1993: "In the aftermath of the first meeting here in Washington between Prime Minister Chernomyrdin and the vice president, [the Commission] expanded. ... This is a very large enterprise involving a broad sweep of cabinet or ministerial level players on both sides."³ Henceforth, the biannual meetings of the American and Russian presidents became little more than high-visibility adjuncts to the Commission's own biannual meetings, and could not substitute for Clinton's disengagement from his administration's policy.

Clinton's abdication to Gore of authority over the most important foreign policy opportunity for America since World War II--the rebuilding of Russia after the collapse of the Soviet Union--is striking. No other foreign policy development in the second half of the 20th century held as much in the balance as the potential Russian transition from Communism to free enterprise and democracy. By assigning this portfolio of overarching importance to his second-in-command--whose priorities were (and remain) "Reinventing Government," environmental issues, and technology policy--Clinton guaranteed that Russia policy would receive only desultory attention. By removing the Russia portfolio another layer from the President, the administration also sent a signal that Russia was of secondary importance to the United States.



RUSSIA IN THE BALANCE: Former Communist industrial manager Viktor Chernomyrdin (left) and Vice President Al Gore preside over an elaborate meeting of the Gore-Chernomyrdin Commission Feb. 6, 1997, at the U.S. State Department. President Clinton delegated responsibility for U.S. Russia policy to Gore, who measured the bureaucratic Commission's success by the amount of paper it produced—"more than 200 intergovernmental and interagency documents." AP Photo/Mark Wilson

A Bureaucracy Is Born

The Gore-Chernomyrdin Commission's function and structure proved an accurate blueprint for the eventual failure of the entire Clinton administration policy toward Russia. In a self-congratulatory "fact sheet" released in July 1999, the administration touted the Commission by asserting that "a dialogue wouldn't take place without [the Commission]." ⁴ In fact, by superseding normal policy making and well established channels of communication within the U.S. government and between it and the Russian government, the Gore-Chernomyrdin Commission would come to impede the information flow to decision makers in Washington.

More basically, by ostentatiously placing great emphasis on the importance of the two central governments, rather than on reducing the role of Russia's central government and devolving power to private decision making, the Gore-Chernomyrdin Commission distracted Russia from what should have been its main focus: constructing the essential elements of a free enterprise economy.

Finally, the Commission powerfully reinforced the overall tendency of the Clinton administration to base U.S. Russia policy on personal relationships with a handful of Russian officials. Such personalization of the bilateral relationship created a symbiotic political relationship between the two sets of officials, making American policy dependent on the political fortunes of individual Russian politicians. It thus created strong incentives to ignore their failings and believe their representations. A former State Department official has testified that " ... senior administration officials were tempted to turn to their Russian partners [rather] than to the intelligence community and the Foreign Service for insight as to

what was happening in Russia and how to proceed."⁵

A Pattern of Busywork and Neglect

The first meeting of the Gore-Chernomyrdin Commission, which consisted mainly of discussions between Gore and Chernomyrdin, established what soon became its format: discussions between representatives of two bureaucracies. It also developed its own elaborate bureaucratic structure. Over time, its main activity became government contacts at the staff level.

As the years went by, the Gore-Chernomyrdin Commission developed a Secretariat--whose very name conjured up memories of the Soviet bureaucracy. Numerous committees, each co-chaired by a U.S. cabinet secretary and his or her Russian counterpart, were established for the purpose of exchanging papers, distributing memoranda, and planning for additional meetings. Each committee, in turn, had its own working groups and subgroups as well, all with their own assigned staffs.

The Gore-Chernomyrdin Commission Secretariat was divided into a Russian and an American component. The American staff was headed by Gore's national security advisor, Leon Fuerth, who became--in the words of the *Washington Post*--"the virtual day-to-day manager of U.S. relations with Russia."⁶ By substituting a bureaucrat whom the *Post* called an "obscure force in national security"⁷ in place of the vice president--who himself was already a stand-in for President Clinton--the importance of U.S. policy making for Russia was further diminished.

Despite the Commission's elaborate structure and the hundreds of people involved, it had no full-time professional staff. Instead, it relied on the various principals to detail their own staffs to the Commission as needed. As a result, the preeminent forum for U.S.-Russia relations not only was twice-removed from the President but also lacked a staff able to give it full-time attention.

The requirement that the staff assigned to the Gore-Chernomyrdin Commission discharge their other duties and responsibilities, which were often unrelated to the Commission's objectives, ensured that the individuals involved had inadequate time to carry out either of their jobs fully.

But what the Gore-Chernomyrdin Commission lacked in organizational focus and dedicated staff, it made up for in numbers. By 1999, the U.S. delegation to a Commission meeting would consist of over 700 officials.⁸

The sheer size of the U.S. delegations to Commission meetings would require the U.S. Embassy in Moscow to suspend normal activity for weeks in advance of a Commission meeting, just to handle the logistics.⁹

The multitudes of part-time U.S. government bureaucrats associated with the Gore-Chernomyrdin Commission were even harder for the Russians to handle. The Commission's constant demands for the time and attention of Russia's already hard-pressed and mismanaged ministries kept them from focusing on more vital and difficult tasks--such as dismantling the Soviet-era bureaucracy.

The distraction from real work caused by the Gore-Chernomyrdin Commission was especially severe given the frequent turnover in the Russian government's senior personnel. Often, a new Russian minister would have just assumed his duties before being called to devote time and resources to preparing for the

next semi-annual meeting of the Gore-Chernomyrdin Commission (or, in its subsequent incarnations, the Gore-Kirienko, Gore-Primakov, and Gore-Stepashin Commissions).¹⁰ Gore's convening of the Commission in July 1999, when Russia's Prime Minister Sergei Stepashin had been in office for less than three months, is a recent example.

Mostly, the Gore-Chernomyrdin Commission's bureaucracy produced paper--a great deal of it. A report issued on the occasion of the tenth meeting of the Commission, issued just months before the August 1998 economic debacle, boasted that it had issued "more than 200 intergovernmental and interagency documents in every area and avenue of U.S.-Russian cooperation."¹¹ Not since the days of the Soviet Union had the unrelenting issuance of so much government paperwork been viewed as a prime measure of achievement.

From 1993 until 1998 (with the exception of 1995, when the Commission met only once), the Gore-Chernomyrdin Commission and its immediate successor, the Gore-Kirienko Commission, met in plenary session twice every year. In 1998, then-Russian Prime Minister Sergei Kirienko proposed holding only one plenary session each year, thus cutting down on the excessive number of government staff conclaves. The other meeting each year would be limited to the vice president and the prime minister. (The two most recent meetings of the Commission, in July of 1998 and 1999, have been held on this less formal basis.)

The Russian media applauded the less frequent meetings, saying "it was high time" to replace "ostentatious gestures" with "effective actions."¹²

According to E. Wayne Merry, formerly the head of the political section of the U.S. Embassy in Moscow, the Gore-Chernomyrdin Commission was worse than mere ostentation; it very much got in the way. Beyond the make-work from so many meetings and memos, the increasing public-relations demand to hype the Commission's supposed "achievements" became a principal chore in its own right. Over time, he reports, the need to pad the accomplishments of the Commission distracted both sides from accomplishing substantive work:

Sadly, with time the Commission has taken on a bureaucratic life of its own and now impedes rather than encourages innovation.

U.S. agencies cannot conduct normal cooperation with Russian counterparts, because the Commission needs fodder for its summits: "new" programs to unveil, documents to sign, photo ops for the principals. ...

Worse, U.S. staffs are under constant pressure to increase the list of summit "deliverables": taxpayer-supplied evidence of American goodwill regardless of Russian performance, honesty or even desires.¹³

By proclaiming dozens of trivial successes, the administration hoped to divert attention from a string of larger policy failures, including the fundamental failure of the Commission to perform its core functions: Russia still lacked even the most basic elements of a free market economy; the costs and delays from U.S.-Russian space cooperation continued to escalate; the privatization of Russia's energy sector was becoming criminally corrupt; and the Russian military was accelerating its proliferation of dangerous weapons and technology.

Indeed, despite the Clinton administration's perceived need to fill the Gore-Chernomyrdin summits with apparent activity, major issues in U.S.-Russia relations often were not addressed. For example, the

Commission did not even establish a working group to focus on corruption, money laundering, and organized crime until 1999--long after the problem of Russia's crime and corruption scandals had gained worldwide media attention.

This dynamic--hyping good news and ignoring problems--was increasingly apparent to lower-ranking U.S. officials. A former State Department official acknowledged that over time "there was an unmistakable shift in the administration's priorities, from 'tell us what is happening' to 'tell us that our policy is a success.'"14 Another former administration official described the "chilling" effect this attitude had on reporting from the State Department and the intelligence community.15



OUT OF THE LOOP: The logo of the "Binational Commissions" project as it appears on the State Department web site. Government-to-government relations under the U.S.-Russia Commission, outside of normal diplomatic channels and based on personalities rather than policy, compromised the ability of the United States to respond to intelligence information, especially information about the head of the Russian Commission, Viktor Chernomyrdin.

The Gore-Chernomyrdin Space Station Debacle

From the outset in 1993, Russian-American space cooperation was a key item on the Gore-Chernomyrdin Commission's agenda. Starting with the 1993 Vancouver Summit, the Clinton administration--under the direction of the Gore delegation to the Commission--undertook an ill-fated effort to integrate Russia fully into the International Space Station.

In 1993, Russia was economically and politically ill prepared to devote the necessary resources to completing the space station on the ambitious schedule then contemplated. Nevertheless, the U.S. staff of the Gore-Chernomyrdin Commission and others in the Clinton administration repeatedly asserted in 1993 that Russian involvement in the space station would actually *accelerate* its deployment. Even more improbably, they claimed it would *save* money for United States taxpayers.

The vice president estimated that Russian participation in the space station program would save U.S. taxpayers \$4 billion and reduce the time needed to deploy the space station by two years.16 But the error in that optimistic estimate became apparent almost immediately. By April 1994, the savings promised by the Clinton administration had been reduced to \$1.5 billion, and the estimated time savings had been cut to just over one year.17 By the end of 1994, the promised savings had vanished entirely.

The actual result of the Gore-Chernomyrdin space station initiative has been not savings but added costs, and not early deployment but seemingly endless delay.

The space station was originally scheduled to begin operation in 2002. The most recent revised schedule calls for beginning full operations no sooner than 2006. Similarly, the original estimate of \$4 billion in *savings* has been changed to added *costs*: whereas the 1993 price tag for the space station was \$17.4 billion, it has since ballooned to at least \$24.1 billion.18 In 1998 testimony before the House Science Committee, Joe Rothenberg, NASA's Associate Administrator for Human Spaceflight, conceded that

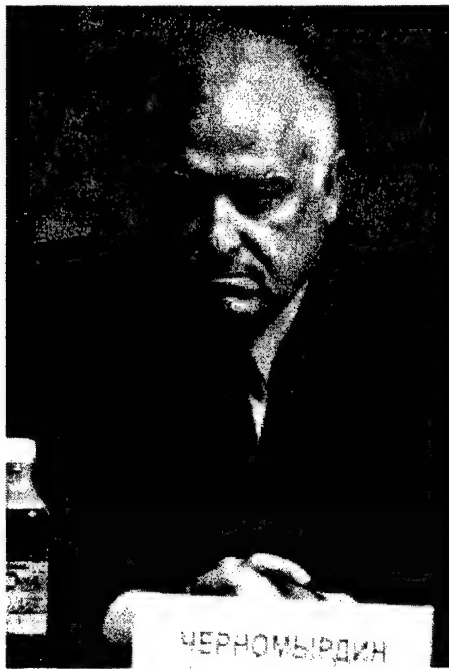
Russian participation in the program is responsible for \$1 billion of these added costs.¹⁹ The Johnson Space Center has estimated that Russian participation in the space station has added \$5 billion in costs.²⁰

Under the original Gore-Chernomyrdin proposal, the United States was to have paid Russia \$400 million for its role in the space station project. This money would take the form of direct payments from NASA to its Russian counterpart, Rosaviakosmos. But the United States has already paid nearly twice this amount to the Russian government, and further additional funds have been requested.²¹

In the final analysis, these cost overruns and delays are neither unprecedented nor wholly unexpected. What is troubling about the Gore-Chernomyrdin Commission's role, however, is that it served chiefly to deny and cover up the delays and cost overruns when they occurred. Three years into the Russian participation in the space station program--and long after the rising costs and attendant delays had become self-evident--Vice President Gore announced "an ambitious future schedule of cooperation in space," as if the earlier schedule had never existed.²² Disregarding both the escalating costs for the United States and the Russian government's failure to meet its commitments, the Commission has produced similarly glowing statements about the health and vitality of U.S.-Russian space cooperation throughout each of the past seven years.

When confronted with information that Russian participation in the space station was detrimental to the station's success, the Clinton administration argued that the costs and delays in the space station program might be justified as an effort to prevent a "brain drain" of Russian scientists to other countries seeking their expertise in rocketry and missile development.²³ But in fact the Russian government had proved willing to provide these other countries with its scientists' missile and rocket expertise without the scientists ever having to leave their Russian research institutes. U.S. assistance on the space station, it was learned, actually subsidized the "brain drain" by supporting companies in the Russian military-industrial complex that were simultaneously engaged in both the space station program with the United States and missile proliferation to Iran.²⁴

The Commission's failure in this, its first assignment--and, in particular, its demonstration of a willful blindness to uncomfortable facts--would become symptomatic of its approach to the broad range of issues in U.S.-Russia policy, and a microcosm of the Clinton administration's approach to unpleasant realities in Russia.



CONFLICT OF INTEREST: Viktor Chernomyrdin attends a board meeting of the Gazprom natural gas monopoly in Moscow, June 30, 2000. He had announced the previous day that he would resign as chairman of the board of Gazprom. Chernomyrdin reportedly obtained significant ownership of Gazprom during the firm's privatization--which Russia's Deputy Prime Minister for Finance called "the biggest robbery of the century, perhaps of human history." Chernomyrdin maintained ties to Gazprom as Prime Minister, simultaneously influencing both Gazprom's affairs and Russia's energy, tax, and regulatory policies that directly affected the company. AP Photo/Mikhail Metzel

Papering Over Missile Proliferation to Iran

The links between space technology and proliferation facilitated the Commission's assumption of yet another area of responsibility: resolving differences between the United States and Russia on weapons proliferation, especially proliferation to Iran.²⁵

In 1995, the Gore-Chernomyrdin Commission claimed success in stemming Russian weapons proliferation when Russia announced it would become a party to the Missile Technology Control Regime. Unfortunately, this "success" was only the first in a string of meaningless Russian pronouncements about arms proliferation. When the first public reports of Russian assistance to the Iranian missile program subsequently surfaced in January 1997, the Clinton administration's weak response was to begin a long and ultimately inconsequential dialogue through the Gore-Chernomyrdin Commission. Such temporizing has failed to this day to stem Russian assistance to the weapons programs of Iran and other rogue nations.

Despite urgent requests from the Israeli government, Vice President Gore failed to make the Iran weapons proliferation issue a focus of the Gore-Chernomyrdin Commission plenary meeting in February 1997. Instead, the Commission focused on such weighty matters as commending itself for having produced 160 documents during the four years since its creation.²⁶ Not until the next Commission plenary session, in September 1997, did Gore even raise arms proliferation in the Commission's public discussions.

Gore's reticence about directly confronting the Russian government on difficult bilateral issues surfaced again when the Clinton administration refused to work with the U.S. Congress as it considered legislation to provide for sanctions, not against Russia, but rather against Russian companies guilty of selling missile technology to Iran. The Clinton administration's unwillingness to tackle the issue drew the attention even of its Democratic allies in Congress. In the Additional Views filed by the minority in connection with the Iran Missile Proliferation Sanctions Act of 1997, eight senior Democrats wrote:

Missile technology transfers to Iran have become a contentious issue between the Committee [on International Relations] and the Executive branch, in part because the consultation process has been weak. The Committee has had difficulty in getting detailed, timely information from the Executive branch on this issue.²⁷

Throughout 1997 and into the summer of 1998, following the advice of the Gore-Chernomyrdin Commission and Vice President Gore himself, the Clinton administration refused to impose sanctions against the Russian firms involved in proliferation to Iran. Instead of accepting the reports of the U.S. intelligence community, Gore chose to trust Chernomyrdin's reassuring pronouncements that proliferation to Iran was against Russian policy.²⁸

The failure to listen to information beyond the elite coterie involved in the Gore-Chernomyrdin Commission, which allowed Gore to credit Chernomyrdin's policy pronouncements above the economic imperatives that are even now helping drive Russian proliferation to Iran, reflected a characteristic weakness of the Commission's very structure, and of the Clinton administration's Russia policy as a whole.

This weakness was again revealed in January 1998, when the Clinton administration chose to accept at face value the Russian government's assurances that its export controls would soon be tightened. The Clinton administration's refusal to accept the widespread reports of Russian violations of its non-proliferation commitments came to a head in June 1998. An overwhelming, bipartisan, and veto-proof supermajority of both houses of Congress passed the Iran Missile Proliferation Sanctions Act of 1998.

The Act provided for targeted sanctions against those Russian firms that were engaged in furthering the Iranian missile program.²⁹ Despite the precision of the legislation, President Clinton--explicitly citing the assurances the Gore-Chernomyrdin Commission and administration officials had received from high-level Russian officials--vetoed the bill.³⁰

Less than one month later, on July 22, 1998, Iran tested the Shahab-3, a missile developed largely with Russian assistance.³¹ The public embarrassment of having vetoed legislation designed to prevent the development of this new weapons system forced the administration finally to sanction ten Russian firms instrumental in the Iranian missile program. Critics of this approach claimed that, of the ten entities singled out for sanctions, only two or three would be affected by the sanctions, and the others that should have had sanctions imposed on them were left off the list.

The Clinton administration's unwillingness to deal firmly with Russian proliferation to Iran--a policy failure centered in the structural weaknesses of the Gore-Chernomyrdin Commission--continues to this day. At the July 1999 meeting of what was then the Gore-Stepashin Commission, Gore rewarded Russia for cooperation on proliferation with an increase in its U.S. satellite launch quota.³² Yet just one month earlier, the U.S. intelligence community had reported that Russian assistance to Iran's nuclear program continues.³³ Although the unclassified version of the report was not released to Congress until February 2000, the Clinton administration had access to this information before the July 1999 Commission

meeting.

Conclusion

Ultimately, Vice President Gore's U.S.-Russia Commission failed to serve its stated function of ensuring implementation of decisions made at the presidential level. Instead the Commission became the primary forum and vehicle for U.S. policy toward Russia. Yet the Commission was deeply flawed by its own structural defects--the need for a facade of success regardless of the reality; an excessive dependence on personal relationships that left the United States ill-prepared when Russia changed players; and a willful blindness to conflicting information about Russian affairs from sources outside the Commission's staff bureaucracy. As the Commission came to dominate U.S.-Russia policy, these flaws infected the entire bilateral relationship.

Because the Commission was dominated on the American side by the same group of senior officials for eight years, it became increasingly insular and resistant to oversight.

The Commission became far too reliant on its small circle of Russian interlocutors for its information about conditions in Russia. This excessive dependence on Russian officials--including a series of Russian prime ministers necessarily focused on their own political survival--led both Gore and the U.S. delegation to the Commission to insulate themselves from discordant information that might cast doubt on the success of the Commission or the Clinton administration's policy. Rather than making policy based upon the best information available from all sources, the Gore delegation chose to depend on a single source with clear motivations to distort.

Such information as the vice president and his staff did choose to receive through normal State Department and intelligence community channels was eventually distorted by the same penchant for exclusively good news, turning the Gore-Chernomyrdin Commission into a Potemkin village version of the administration's Russia policy.

The Gore-Chernomyrdin Commission thus contributed to a deliberately uninformed U.S. policy toward Russia. It refused to acknowledge failure, and even worse, celebrated failure as if it were success. The Clinton administration's dependence on the Gore-Chernomyrdin Commission, coupled with the Commission's refusal to listen to independent information, meant that administration Russia policy was both procedurally and substantively unsound.

Beyond failing to properly assess Russia's problems or to offer sound advice to address them, the Clinton administration's use of the Gore-Chernomyrdin Commission in place of established U.S. policy making mechanisms resulted in its repeatedly being caught off guard by Russian developments--from Russia's complete financial collapse in 1998, to the continued proliferation of missile and nuclear technology to Iran, to Yeltsin's appointment of Vladimir Putin as Prime Minister. The dangerous substitution of the vice president's bureaucracy for America's institutional eyes and ears in Russia left the Clinton administration woefully unprepared to deal with what should have been America's most important foreign policy priority since World War II.

CHAPTER 6

'BULL**': GORE AND
OTHER ADMINISTRATION
POLICY MAKERS
SYSTEMATICALLY
IGNORE EVIDENCE OF
CORRUPTION OF THEIR
'PARTNERS'**



THE OLD GUARD: Left to right, former Russian Prime Minister Viktor Chernomyrdin, a Communist-trained technocrat and Soviet industrial manager; a portrait of Soviet dictator Josef Stalin; and Vice President Al Gore, who supported Chernomyrdin's requests for subsidies to the Russian central government. Gore ignored evidence of Chernomyrdin's corruption. He and Chernomyrdin met in Stalin's country house in a Moscow forest on July 14, 1996. AP Photo/Pool

The truth about corruption is difficult to hear and difficult to speak. But once the truth is spoken and heard and known, the truth itself acquires a power that can transform nations and our world.

Vice President Al Gore, February 26, 1999

There have been a lot of charges and innuendo [about Viktor Chernomyrdin] but there has been no proof, no smoking gun, and certainly no indictment in a Russian court.

Leon Fuerth (Al Gore's National Security Adviser), as quoted in the *Washington Post*, July 27, 2000

Facts are stubborn things.

President Ronald Reagan, August 15, 1988



The 1995 CIA Report

In 1995, CIA officials dispatched to the White House a secret report based upon the agency's large dossier documenting the corrupt practices of then-Russian Prime Minister Viktor Stepanovich Chernomyrdin, who with Vice President Gore co-chaired the Gore-Chernomyrdin Commission. The private assets that Chernomyrdin had accumulated in his official position, according to Russian security sources, ran into the billions of dollars.¹ When the confidential classified report on Chernomyrdin reached Vice President Gore, however, he refused to accept it. Instead, he sent it back to the CIA with the word "BULL*****" scrawled across it.²

When the *New York Times* first reported these grotesque facts, White House and CIA officials denied that the report existed. *The National Journal*, however, reported approximately six months later that it had independently confirmed the *Times* account.³ A few months later still, the *Washington Post* wrote that CIA sources, "had it that the report came back with 'bull----!' scrawled in the vice president's handwriting."⁴

It is difficult to imagine a more dangerously intemperate reaction by the vice president to official corruption in Russia. Yet this was hardly an isolated incident. The administration had ignored repeated earlier warnings of corruption by Chernomyrdin and other senior Russian officials. Several senior Clinton administration officials have confirmed that they had received a number of reports from the CIA alleging corruption by Chernomyrdin, and that the CIA had submitted many other reports alleging corruption among other senior Russian leaders, including Anatoly B. Chubais.⁵ "My review of CIA's published material persuades me that it has reported to its readership persuasively and in depth that crime and corruption are pervasive problems in Russia," said a CIA ombudsman tasked with investigating the CIA's work after the first *New York Times* article about the vice president's "barnyard epithet" appeared.⁶

It is therefore clear that the vice president rejected not an initial report unsupported by other evidence, but rather a detailed report built on extensive earlier work by the CIA of which Gore must have been aware. Moreover, the allegations against Chernomyrdin were made in the context of numerous charges against other senior Russian leaders--suggesting widespread corruption at the top levels of the Russian government.

Gore's close personal relationship to Viktor Chernomyrdin--and not any superior intelligence that he possessed as Vice President--was therefore obviously decisive in his emotional dismissal of the CIA

intelligence report of Chernomyrdin's corruption. At the same time that he was receiving reports of Chernomyrdin's corruption and the growing anger of the Russian people over the power of the oligarchs, the vice president was effusive in his public comments about Chernomyrdin. In June 1995, as they stood together in Moscow, he displayed his lack of objectivity. "Friends have a right to be proud of friends," Gore proclaimed. He added: "The longer one works with [Chernomyrdin], the deeper one's respect grows for his ability to get things done."⁷

Chernomyrdin Allegations--No Secret

The Clinton-Gore administration's knee-jerk dismissal of top-secret corruption allegations against Viktor Chernomyrdin was all the more remarkable taking into account the extensive information available in open sources, including the Russian and U.S. media.

For example, in the summer of 1995 a respected U.S. analyst of Russian affairs wrote a comprehensive article in the *Washington Post* detailing wide-ranging charges against the Russian prime minister.⁸ Peter Reddaway, a political science professor at George Washington University and former director of the Kennan Institute for Advanced Russian Studies, cited accusations by Boris Fyodorov, who had served as Russia's Deputy Prime Minister for Finance, that Chernomyrdin illicitly obtained significant holdings of stock in Gazprom, Russia's gas monopoly, during the firm's privatization--a privatization that Fyodorov characterized as "the biggest robbery of the century, perhaps of human history."⁹ Chernomyrdin was thus made one of the ten richest men in Russia (Gazprom was worth up to \$700 billion). Reddaway also noted similar charges by Vladimir Poleanov, also a former Deputy Prime Minister, in a nationally televised interview in Russia. The *New York Times* reported in July 1995 that Chernomyrdin's son was building "an enormous country home" in a Gazprom compound, and that he was also thought to be "one of the company's largest shareholders."¹⁰

Chernomyrdin's continuing links to Gazprom after his entry into government were also widely reported. In fact, a March 1995, cable from the U.S. Embassy in Moscow signed by then-Ambassador Thomas Pickering directly alluded to Chernomyrdin's continuing involvement with Gazprom after he entered government, and with Gazprom's extraordinary influence over the government:

A former 'Gazprom' director--Viktor Chernomyrdin, who Embassy sources report spends a significant amount of his time on 'Gazprom' business--is prime minister. An aide to current 'Gazprom' director Rem Vyakhirev said recently that, when there are problems in his sector, 'they (the federal government) do not tell us what to do, we tell them what needs to be done.'¹¹

Numerous public sources noted Chernomyrdin's specific role in ensuring that the gas monopoly paid minimal taxes. One expert estimated that Gazprom's tax breaks cost the Russian budget up to \$30 billion¹²--an immense sum relative to total Russian revenues and expenditures (for example, Russia received less than \$15 billion from international financial institutions in the four-year period from 1992 to 1995). This lost revenue had a grave effect on the government's ability to cope with the struggling Russian economy. In this sense, the Clinton administration's uncritical support for Chernomyrdin directly undermined the U.S. policy of encouraging Russia to increase tax collections.

Gazprom in return had provided funds for Chernomyrdin's parliamentary campaign in December 1995.¹³

In 1998, a book by Russian security officer Valery Streletsky added further public evidence that Chernomyrdin tolerated massive corruption within his government. The author, who headed a unit tasked with investigating government corruption, states that Chernomyrdin's long-time chief of staff, Gennady Petelin, amassed tens of millions of dollars in foreign bank accounts.¹⁴ The author further reported that Chernomyrdin's own chief of security personally told him:

Viktor Stepanovich [Chernomyrdin] relates seriously to cadres. This practice has been worked out over years. He thinks: let a good person steal 10% but do what is necessary with the other 90%.¹⁵



MORE "BULL ***":** Vice President Al Gore on *Meet the Press*, July 16, 2000, where he denied scrawling "Bull*****" across a CIA report of Chernomyrdin's corruption in 1995, but inadvertently acknowledged both the existence of the specific report and his categorical dismissal of it. Newsmakers/Mark Wilson

Chernomyrdin was recently brought into court to testify about his role in the illegal export of \$180 million worth of diamonds and gold during his administration.¹⁶ As this report was being prepared, Russian press accounts quoted Swiss police sources as stating that tens of millions of dollars had been transferred into Swiss bank accounts controlled by Chernomyrdin during his tenure as prime minister.¹⁷ The transfers were made by Mercata Trading, a firm linked to Mabetex, which is at the center of a major kickback scandal involving \$300 million in Russian government contracts, including the scandal-ridden renovation of the Kremlin itself.

Given that Chernomyrdin served as prime minister for five and a half years, his embrace of corruption fundamentally compromised Russia's efforts at economic reform. In this way, the Clinton administration--and Gore personally--contributed not only to Russia's failure to overcome corruption, but to the spread of corruption throughout the Russian political system.

Gore's failure to heed U.S. intelligence by showing discretion about Chernomyrdin and other corrupt officials in his public diplomacy--his willful blindness, and that of other senior administration officials to the overwhelming public and classified evidence of official Russian corruption--sent precisely the wrong signal to U.S. intelligence analysts, who had proven their regional expertise by accurately predicting the collapse of the Soviet Empire.¹⁸

The *New York Times* reported the effect of the vice president's disdain for politically inconvenient intelligence:

The incident has fostered a perception in the agency's ranks that the Administration is dismissive of 'inconvenient' intelligence about corruption among the Russian leaders with whom White House and State Department officials have developed close personal relationships.¹⁹

One intelligence official has stated publicly: "They never want to hear this stuff." Another commented: "They don't ignore it. But they don't want to have to act on it." Current and former U.S. intelligence officials expressed similar views:

"It [Chernomyrdin's corruption] was all laid out for Gore [in 1995] ... and he didn't want to hear it. Our government knew damn well what was happening."²⁰

Senior administration officials including Gore "definitely didn't want to know about corruption around Yeltsin. That was politically uncomfortable."²¹

The former Chairman of the National Intelligence Council, Fritz Ermarth, who retired from the CIA in 1998, wrote of senior Clinton administration officials that they had a "disdain for analysis about corruption of Russian politics and their Russian partners ... "²² Ermarth notes that this disdain was particularly strong during the critical 1993-96 period.

They Know That We Know

Russian assessments of what the U.S. knew about Russian corruption also undermine the Clinton administration's claims of ignorance. For example, a report by a think tank associated with the Russian military, the Russian Institute of Defense Studies, states specifically:

Special services of Western countries have full access today to all documentation of joint ventures and other partners of Russian exporters, they have the originals of financial documents, they are knowledgeable regarding the movement of commodity resources and financial flows, they have information on bank account numbers of the 'new Russians,' and they know about their real estate and securities transactions abroad.

The report, issued contemporaneously with the Gore "bull****" incident, further stated:

And it should be understood that ... the outflow of resources and capital from Russia abroad in the form in which it is being accomplished today is criminalized to the highest degree and represents not only a violation of domestic laws but also the grossest violation of laws of the

western countries themselves.²³

Yet even as publicly available Russian sources concluded that information about the full extent of Russian official corruption was known to Western intelligence services, the top Clinton administration policy makers chose to ignore it.

A System for Rejecting All 'Inconvenient' Intelligence

Vice President Gore has hedged his denial of the "bull****" incident, saying, "I don't think" that "[I] ever wrote a message of that kind." At the same time, however, he and other senior Clinton-Gore officials have publicly dismissed the CIA reports. Indeed, when asked whether "bull****" had ever been scrawled across a CIA report, Gore plainly referred to a *specific* CIA report, saying, "whoever sent *that* over there [could not have] expected the White House to be impressed with *it* ... *it* was a very sloppy piece of work."²⁴ Other administration officials dismissed the CIA reports as "rumor," and denied that the CIA had provided "conclusive proof."²⁵

But agency reporting is necessarily based on intelligence sources, often covert. By conveniently demanding a "smoking gun" whenever they sought to suppress uncomfortable facts, Gore and other top Clinton administration officials established standards of proof that were impossible to meet. The result was a rigged system for rejecting all "inconvenient" intelligence whenever it suited the preferences of the White House.

Such misuse of intelligence data deepened the mistrust between the White House and the Intelligence Community. CIA officials have described the resultant "frequent tensions between the agency and policy makers over reporting."²⁶ According to one CIA official:

These people [the Clinton-Gore administration] have expected something no one in the intelligence community could provide--judicial burden of proof. ... Did we have an authenticated videotape of the person actually receiving a bribe? No. But reporting from established, reliable sources was written off as 'vague and unsubstantiated.'²⁷

CIA officials have described the intelligence information concerning Chernomyrdin that was provided to Gore as "more detailed and conclusive than allegations of bribery and insider dealing that have been made in the Russian media and elsewhere."²⁸ Yet when asked--as recently as July 2000--whether Chernomyrdin is corrupt, Gore replied: "I have no idea."²⁹

False Choices

Recently, Leon Fuerth, the vice president's national security adviser, has tried to play down the widespread intelligence community condemnation of Gore's disdain for official reporting by arguing that the problem of corruption "was on the [Gore-Chernomyrdin] Commission agenda."³⁰ But it is difficult to see how a Gore-Chernomyrdin Commission could meaningfully attack the problem of Chernomyrdin's own corruption, or that of his associates. Indeed, addressing corruption in partnership with Chernomyrdin, whom another former Russian official called "the chief mafioso of the country,"³¹ was tantamount to endorsing Russia's corrupt status quo.

Gore's lavish praise for Chernomyrdin, and his intentional personalization of their relationship make it equally impossible to accept Fuerth's claim that Gore had no alternative but to deal with the prime minister. (The Clinton administration, Fuerth stated, had either to "boycott the government of Russia" or "deal with [Chernomyrdin]"³²--an obviously false choice.) Gore's embrace of Chernomyrdin and the ever-larger role assigned to the Gore-Chernomyrdin Commission went far beyond what was justified by what the U.S. government knew of him, and by the Commission's meager results.³³

The pro-forma inclusion of official corruption "on the agenda" of the Gore-Chernomyrdin Commission, along with scores of other topics large and small, is quite different from making its eradication a priority. The content of the Clinton administration's policy on Russian corruption has amounted to general disinterest. It has offered lip service³⁴ while failing to act on specific problems such as money-laundering until forced by events.

The very serious allegations made against the Russian Prime Minister and Vice President Gore's partner in the Gore-Chernomyrdin Commission, amply set forth in official U.S. intelligence reports, were simply rejected by the Clinton administration as the scope of the issues assigned to the Gore-Chernomyrdin Commission was steadily increased. Indeed, to the extent that President Clinton seemed willing to give an ever-increasing role in the U.S.-Russian relationship to the Gore-Chernomyrdin Commission, Gore stood to benefit from maintaining his continued close personal relationship with Chernomyrdin.

In light of Chernomyrdin's notorious corruption, the expansion of the Gore-Chernomyrdin Commission's role and the decision to make it the fulcrum of U.S. policy were a serious error that abetted the growth of official corruption and crime in Russia, to the detriment of the Russian people and the longer-term U.S.-Russian relationship.³⁵ Broader, less centralized cooperation with the Russian government and a less fulsome embrace of Chernomyrdin could have averted these problems, and kept the United States on the side of reform.

The Larger Pattern

Vice President Gore's approach to evidence of Chernomyrdin's corruption is a microcosm of the approach he and the Clinton administration took towards the problem of corruption, which extended far beyond Viktor Chernomyrdin.

As Wayne Merry, a senior official at the Moscow Embassy during the first part of the Clinton administration, testified in September 1999:

It is now asked, "What did our policy makers know about corruption in Russia and when did they know it?" I can only say that anyone involved with Russia--in government or on the street--knew about it all along. There was no secret. Even if the Embassy and the CIA had not written a word, the Western press covered the story fairly well, while the Russian media reported on corruption constantly Anyone who wanted to know, knew. The real questions are, "Did our policy makers care, and what did they do about it?"³⁶

The answer to these questions is clear, not only in the case of Chernomyrdin but in many other cases as well. The Clinton administration repeatedly ignored evidence and sought to politicize the analytical process, routinely dismissing or stifling reporting that did not support their policies or fit their political

requirements.

Donald Jensen served as a second secretary in the U.S. embassy in Moscow from 1993-1995 and returned to Moscow in 1996. During his 1996 work at the embassy, Jensen wrote a 10-page cable identifying Russian oligarchs who were using their government connections to win control of prized enterprises. According to Jensen, his cable was killed by a Clinton administration Treasury official who worked in the Moscow embassy.

The administration official, Jensen stated, justified suppressing factual reporting about Russian official corruption by arguing that "if the memo were sent to Washington, it could be leaked to the press, and that would undermine U.S. policy."³⁷

Jensen told "Frontline" that the cable was never sent because "it was bad news, and we [the Clinton administration] were intent on making our policies work."³⁸ Moreover, he added:

if corruption was shown to exist in any significant degree ... that was criticism of the [Clinton] policy because we had argued for a number of years that these things--these policies--were for the good of Russia, and that if you now say that the government's completely corrupt, that it's linked directly or indirectly with organized crime, you're essentially saying the policy the U.S. government has followed over the past few years was wrong.³⁹

Thomas Graham, the head of the U.S. Embassy's political section in Moscow from 1994-1997, confirmed Jensen's account in an interview in the *Washington Post*.⁴⁰

In the same article, Graham's predecessor in Moscow, Wayne Merry, said the embassy, "was under constant pressure to find evidence that American policy was producing tangible successes, especially after the creation of the 'Gore-Chernomyrdin' working group." Merry also said that the Clinton administration's desire to make the Gore-Chernomyrdin commission a success prevented reporting "about the realities of crime and corruption ... failures in the privatization and general bad news."

Graham argues compellingly that the dismissal of such reporting by senior Clinton administration officials was a direct consequence of their personal relationships with a handful of Russian officials.⁴¹ Because senior Clinton administration officials became so close with their counterparts in the Russian government, he suggests, over time they came to trust their Russian interlocutors more than reports from within their own government. Thus, senior Clinton administration officials came to rely upon their Russian partners not only for information, but for analysis and policy recommendations as well; as a result, the CIA, the embassy staff, and other independent sources of information were marginalized.

At times the Clinton administration has positively hindered the uncovering of official corruption: the Swiss government has recently complained of U.S. refusal to cooperate with its criminal investigations into official Russian corruption. Laurent Kasper-Ansermet, a Swiss investigative magistrate, formally requested assistance from the U.S. government in his investigation into the Bank of New York case in September 1999 and began a series of detailed requests for information and assistance in January 2000, but to date has received little cooperation.⁴²

Groupthink

An article in the *National Journal* suggests that the Clinton administration's policy toward Russia may be a classic case of "groupthink," a psychological process in which "wishful thinking, shaky premises, and a tendency to deny facts at odds with the cognitive underpinnings of a course of action to which a group is committed" can lead to flawed decision-making and policy failures.⁴³ Moreover, because the decision-makers involved in "groupthink" are unable to admit their own errors, they become trapped in a "tangled muddle of self-justification, denial, and distortion." The *National Journal* analysis attributes much of the problem in Russia policy to Deputy Secretary of State Strobe Talbott and Treasury Secretary Lawrence Summers. They, like Vice President Gore, were unwilling, and eventually unable, to distinguish the imagined world of their own policies from the real world of an increasingly desperate Russia. As a result, the Clinton administration continued, and even intensified, activities that were plainly destructive.

CHAPTER 7

THE RISE OF ORGANIZED CRIME



THE NEW RUSSIANS: Russians pay their respects to a fallen gang member. Mikhail Kuchin, portrayed on his tombstone, is holding keys to his Mercedes Benz, a symbol of new Russian power. In the absence of market reforms in Russia, organized crime replaced the state as property distributor and dispute arbiter, while it stifled legitimate entrepreneurs. Yevgeny Kondakov

As the Soviet Union was reinvented as Russia [t]he Russian problem was redefined from being one of organized power into one of organized crime.

James Kurth, *The National Interest*, Summer 2000

Paying the Price for Failure to Develop a Market Economy

The Clinton administration's failure to place primary emphasis on replacing Communism with the basic elements of the free enterprise system helped create the conditions in which organized crime has flourished. Without such essentials as effective legislated protections for private property, modern commercial codes, and honest, efficient, and speedy courts to enforce property rights, the "privatization" of government entities in Russia predictably resulted in chaos.¹

The Russian economy did not work. People who needed to make ends meet, to save or invest money, or to get something else done looked for alternatives. For those suffering miserable poverty, theft became an option. Counterfeiting found favor among some who went months without wages. The prevalence of a barter economy gave rise to opportunities for tax evasion, extortion, and "protection" from regulatory authorities. Lagging enforcement of intellectual property rights encouraged black-market entrepreneurs. A supply of private "enforcers" arose to meet the demand for a system of dispute resolution.

Thus, organized crime came to be responsible not only for grisly mayhem and violence, but also for functions as diverse as enforcing contracts and court judgments, providing personal security, and even allocating scarce resources (through bribes to corrupt officials). The ability of some Russian organized crime groups to draw upon the specialized expertise and contacts of former Soviet personnel further increased their ability to compete with the Russian government both in technological sophistication (in areas such as cyber-crime) and geographic reach.

Moreover, the continuing and pervasive role of government in the economy has provided an enormous impetus for organized crime:

[O]ne frustrated former Moscow prosecutor has summarized Russia's current organized crime problem: "The main way the mafia penetrates into the economy is via the bureaucrats. They are our main enemy. The mafiosi are only the second enemy."

Russia's reluctance to loosen remaining state economic controls ... is the biggest catalyst for crime. Businesses seek to evade what are perceived as unacceptably high taxes or overly restrictive regulations; mafia groups thrive by providing a means for them to do so Both at the federal and local level, government levies a daunting array of transaction costs on normal business activities. Rather than pay fees for countless licensing and permit requirements, firms choose to avoid official red tape by paying less costly bribes The mafia often plays the role of middleman in these situations, facilitating transactions between businessmen and corrupt government officials.²

Ironically, the successive privatization schemes promoted by the Clinton administration, far from remedying this problem, exacerbated it, creating an oligarchic economy that put many powerful individuals visibly above the law, demoralizing ordinary Russians, and setting a tone of pervasive lawlessness at the apex of the Russian economy. As the Center for Strategic and International Studies reported in its study of Russian organized crime,

The principal beneficiaries of privatization--conducted at "auctions" rigged in favor of pre-selected individuals or banks--have been the [organized crime] syndicates. According to the Analytic Center of the Russian Academy of Sciences, "55 percent of the capital and 80 percent of the voting shares were transferred, during privatization, into the hands of domestic and foreign criminal capital."³

The oligarchic economy also tightened the stranglehold of official corruption over the Russian

government and the large sector of the ostensibly "privatized" economy that it influenced. This official corruption both obstructed law enforcement and created a symbiotic relationship between corrupt government officials and organized crime, which assisted them in such tasks as laundering money.

The Clinton administration's decision to base U.S.-Russian relations on Vice President Gore's relationship with Viktor Chernomyrdin and a handful of other high officials also sent a strong public signal that the United States would not only tolerate but embrace figures clearly identified in the Russian media and public consciousness with corruption--further undercutting law enforcement, and demoralizing not only the out-manned and underpaid Russian foes of organized crime but also the Russian people.

The fact that Vice President Gore and other top-level Clinton administration officials were willing to be so closely linked to Chernomyrdin and others clearly known by the U.S. intelligence community to be involved with organized crime could not help but influence public attitudes toward criminal behavior. Low-level bureaucrats taking bribes for permits, soldiers selling weapons to criminal groups, and border guards willing to let anything through for a price⁴ all lived by this logic: after all, why should criminals and corrupt government officials be the only ones to benefit from Russia's chaos?

The result was a vicious cycle of increasing crime and disorder, and a growing disillusionment with democracy and free markets:

[T]he privations of ordinary citizens stand in contrast to the opulent lifestyles of gangsters, corrupt politicians, and entrepreneurs of questionable integrity. This deviation has promoted the impression of a state hopelessly corrupt, out of control, and run by criminals who continue to use illicit means to hold onto the privileges of the elite formerly reserved for officials of the Communist Party.⁵

All of these pathologies were predictable responses to the lack of a genuine market economy and the rule of law. The criminal world's mailed fist increasingly substituted for the invisible hand of the free market. Organized crime became "the dark side of private ordering--an entrepreneurial response to inefficiencies in the property rights and enforcement framework supplied by the state."⁶

It was the devil's due for Russia's failure to develop a market economy in place of Communism--a failure abetted by the Clinton administration's economic strategy for Russia and its embrace of corrupt Russian officials.



A BETTER IDEA: Former World Bank Senior Vice President and Chief Economist Joseph E. Stiglitz, who took a more thoughtful approach to the establishment of a market economy in Russia, explained that there was an alternative to the Gore-Summers-Talbott "privatization" plan. He suggests that a bottom-up approach to privatization--selling off smaller enterprises first--could have avoided much of the looting of Russian enterprises.

This approach, Stiglitz suggests, would have allowed for the establishment of a free-enterprise economy into which the large enterprises could then be privatized. Such a policy would have avoided the creation of the oligarch class, and limited the ability of the owners of newly- privatized businesses to obstruct the growth of competitors that worked against their venal interests. He analyzed the issue in the Keynote Address to the World Bank Annual Bank Conference on Development Economics, which he entitled "Whither Reform? Ten Years of the Transition."

He appears above at a news conference Apr. 26, 1999, at the start of the bank conference. AP Photo/Dennis Cook

Half the Economy

The impact of organized crime in Russia is staggering. Russian officials estimate that up to 50% of the nation's economy is in some way connected to organized crime.⁷ According to Russia's Ministry of Internal Affairs, by 1997 organized criminals owned or controlled about 40% of Russia's private businesses, 60% of state enterprises, and 50% to 85% of banks.⁸ Illegal drug traffic, the most recent manifestation of Russia's organized crime pandemic, is currently valued at between \$4 billion and \$7 billion per year.⁹ Russian firms must often pay 10% or more of their revenues in protection money to criminal organizations and bribes to corrupt officials.¹⁰

In February 2000, the Main Administration on Combating Economic Crimes disclosed that Russian law enforcement agencies had exposed 300,000 economic crimes in 1999¹¹ --an average of one crime for each of the 300,000 legal entities registered in Russia to engage in foreign trade.¹² About 125,000 of those crimes were felonies.¹³ The Interior Ministry considered 90% of the economic crimes involving organized criminal groups "serious" or "very serious."

Efforts by organized crime groups to launder illicit proceeds into the legitimate economy have resulted in the creation of large, sophisticated criminal networks in and out of Russia. The Interior Ministry reports that eleven large organized criminal groups, 95 "criminal communities," and 1,000 "organized criminal groups" operate in Russia.¹⁴ These groups include 50,000 people organized into nearly 250 gangs controlling 5,000 companies, many with international reach.¹⁵ Russian organized crime groups operate in some 60 to 65 nations.¹⁶ Raymond Kerr, the head of an FBI-New York City police task force

on Eastern European organized crime, described them as "spreading like an e-mail virus."¹⁷

From Stalinist Purges to Organized Crime Hits

"Organized crime" is the ongoing and systematic commission of public offenses. In Russia, no other term could be used to describe the contagion of money laundering, tax evasion, bribery, embezzlement, drug dealing, extortion, and contract murder that has taken such a deadly toll on the population since 1992.

The legacy of the Communist system that dominated Russia for over 70 years was human suffering, death, fear, and economic chaos. The culture of crime that has now infiltrated large parts of the Russian economy seems, for those Russians upon whom it has preyed, to be very much the same.

"Crime used to be a monopoly of the State under the old system," Russia scholar Richard Pipes testified to the House Armed Services Committee. "It is now privatized."¹⁸

"[T]he Communist Party of the old Soviet Union ... bore all the characteristics ... of a Mafia," testified Brookings Institution Scholar Clifford Gaddy. "[B]ut it was an extremely well-organized Mafia. What we are seeing today is highly disorganized crime, and that is precisely why I think we are seeing so many of the characteristics that we associate with it, the brutality, the murders."¹⁹

Nothing more vividly illustrates the horrible human toll than the growing epidemic of contract killings.²⁰ In St. Petersburg--the "crime capital of Russia," where organized crime controls even the cemeteries--200 deaths have been labeled contract killings since 1997.²¹

The following is a sample of the hundreds of contract killings that have occurred just this year:

*** January 10, 2000:** Ilya Vaysman, 36, director of the St. Petersburg Baltika brewing company, was shot in the head and heart from a fifth-floor ledge a few feet from the kitchen window of his apartment. Suspected motive: a dispute over the disposition of expected investments. (Baltika's general director of marketing, Aslanbek Chochiyev, was shot to death as he was getting out of his Mercedes on July 1, 1999.)

*** February 2, 2000:** Valeriy Potapov, 36, the general director of the Baltisykaya Zarya timber company, was shot twice in the back of the neck near his house. Suspected motive: Property dispute.

*** March 11, 2000:** Dimitri Varvarin, 40, general director of the Russian-American Orimi company, was shot in the back of the neck at point-blank range as he left his car. Orimi was created in 1990 with the American firms NSTE and International Forest Technology, and controls recently "privatized" businesses in timber, furniture, and fuels, and is one of the biggest sellers of tea in Russia, Kazakhstan, and Ukraine. Varvarin personally owned a large block of shares in shipbuilding and timber businesses in Russia, and had taken part in the "privatization" of dozens of enterprises in St. Petersburg, Leningrad Oblast, Ukraine, Kazakhstan, and Belarus. Suspected motive: a real estate battle.

*** March 22, 2000:** Sergei Krizhan, 44, general director of the Russian Construction and

Trading Group joint-stock company, was shot to death while driving in his Jeep, along with his son, 20, an economics and finance student at St. Petersburg University. Krizhan owned and founded about 10 St. Petersburg firms specializing in export and import activity, consumer goods trade and production, repair and construction work, and realty operations. Three of the firms were directly related to Orimi.

*** April 4, 2000:** Gennady Ivanov, 45, director of the Kvarton firm, was killed on his way to work by a round of automatic weapon fire aimed at his Volvo. Eyewitnesses saw the killer slip into the archway of an apartment block where a car was waiting for him. Kvarton, with 4,000 employees, was created in St. Petersburg in 1994 and sells sewing threads, furniture fabric, and hosiery. It holds large blocks of shares in textile enterprises in St. Petersburg, Moscow, and Pskov.

*** April 10, 2000:** Igor Bamburin, 47, head of Shatl and founder and cofounder of several equipment and automobile firms, was shot in the head four times as he arrived at the home of his daughter, a Technical University student. Despite reports that five or six people witnessed the shooting, no arrest was made. Bamburin was previously an officer of the Regional Administration for Combating Organized Crime.

*** April 26, 2000:** Georgy Pozdnyakov, 44, co-owner of the "Hollywood Nights" nightclub, was shot three times in the head and chest at the St. Petersburg Railways University sports complex. Suspected motive: criminal conflict connected with the repartition of property. (Pozdnyakov belonged to the entourage of St. Petersburg oil magnate Pavel Kapysh, killed July 26, 1998 on Vasilevskiy Island.)

*** May 22, 2000:** Dimitri Ogorodnikov, 36, chief of the Samara Internal Affairs Administration Department for Combating Organized Crime, was shot in the head five times in his automobile in the center of the city of Tolyatti. He was a 10-year veteran of the Special Rapid Reaction Detachment of the Regional Administration for Combating Organized Crime.

*** June 14, 2000:** Alexander Sinayev, 47, the owner of the Leneksbank commercial bank, was found shot twice in an Audi in Krasnodar in what the Territory's Public Prosecutor's Office called a contract killing. "Leneksbank was one of the first bankrupts in the Kuban," TASS reported, "but Sinayev was able to pay back the deposits of over 15,000 depositors. He promised to settle up with all deceived depositors."

*** June 16, 2000:** Alexei Kachkov, 40, who owned several flower shops on Leninskiy Prospect in Moscow, was shot six times at point-blank range in northeastern Moscow.

*** July 10, 2000:** Oleg Belonenko, 51, managing director of the huge Uralmash machine tool company, was shot twice in the head, days before he was to meet with President Putin, an example of how contract killings have reached high up into the business world. Belonenko's driver was also killed.

*** July 26, 2000:** Sergei Novikov, 37, head of the only independent radio station in the Smolensk region, was shot dead outside his apartment block, 300 miles outside of Moscow, reportedly the 120th journalist killed in Russia since December 1991.

*** July 31, 2000:** Sergei Isayev, 49, the rector of the Russian Academy of Theatrical Art,

was murdered in a contract killing in the settlement of Valentinovka, near the town of Korolev. "Never before in Russia have contract killings of leaders of cultural establishments and higher educational establishments taken place," said Russian Culture Minister Mikhail Shvydkoy in an Itar-TASS interview following the murder.²²

As is the case with virtually all of Russia's contract killings, none of these has been solved.

Corrupt 'Privatization' of Russian Monopolies Breeds Money Laundering and Organized Crime

Organized crime was both a cause and an effect of Russia's corrupt "privatization" process. Disappearance of government revenues due to corruption and organized crime encouraged the government to pursue its notorious "loans-for-shares" insider privatization auctions in 1995.²³ In turn, these auctions were themselves subject to manipulation by organized crime.

The unrealized potential gains for the Russian government from its corrupt conduct of the privatization process were substantial. Media reports of the prices paid by insider Russian firms at the auctions--and the subsequent, much higher, prices those firms charged to Western investors seeking shares--suggest that significant revenue was lost to criminal behavior. Further evidence of the cost of "privatization" is offered by comparison to the results of the privatization of considerably fewer and smaller enterprises in Central European countries, which proved vastly superior to Russia's poor results.

The "privatization" process was carried out with direct assistance and guidance from the U.S. government. Janine Wedel, a noted scholar on Russian corruption, described the privatization process as inherently corrupt:

The ... flagship organization was the Russian Privatization Center, which had close ties to Harvard University. Its founding documents state that Harvard University is both a "founder" and "Full Member of the [Russian Privatization] Center." The center received funds from all major and some minor Western donors and lenders: the United States, the IMF, the World Bank, the European Bank for Reconstruction and Development, the European Union, Germany, and Japan.

The center's chief executive officer, a Russian from the Chubais Clan, has written that while head of the center he managed some \$4 billion in Western funds. The Chamber of Accounts, Russia's rough equivalent of the U.S. General Accounting Office ... concluded that the "money was not spent as designated. Donors paid ... for something you can't determine."

When I interviewed AID-paid consultants working at the center, I was told that the funds were routinely used for political purposes.²⁴

The corrupt "privatization" of state enterprises has also reinforced organized crime by affording it unprecedented access to the resources of the Russian state. Money, technology, equipment, trained personnel from the military and security services, and vast state assets have been made available to organized crime groups via the long-established connections between the "privatized" firms, their management, and their customer-supplier networks.²⁵

The authoritative CSIS report "Russian Organized Crime" stated categorically that "[t]he principal beneficiaries of privatization ... have been the [organized crime] syndicates," citing a Russian study that found that 55 percent of the capital and 80 percent of the voting shares transferred during privatization went into the hands of "domestic and foreign criminal capital."²⁶

Stifling Competition in Chernomyrdin's Energy Industry

A fundamental flaw in Russia's "privatization" of huge state companies is that it created no new competitors. Instead, it produced "oligarchs [who] dominate Russian public life through massive fraud and misappropriation, particularly in the oil sector."²⁷

Indeed, the energy sector--in which Viktor Chernomyrdin allegedly netted billions of dollars as a result of his participation in the "privatization" process--is a useful case study.²⁸ Nothing in the Gore-Summers-Talbott "privatization" strategy was designed to force the existing Russian energy industry to compete with new firms on price, or on innovations in production and delivery. As a result, Russian oil and gas companies failed to achieve any new efficiencies from competition. Had they done so, Russia might have been able to produce oil and gas in sufficient quantities to compete even if world prices remained low.

Instead, lacking the ability to produce profitably for world markets, the new owners of Russia's production companies resorted to such artifices as selling oil below cost to holding companies they controlled, which would then resell the oil at the market price. The results were highly profitable to the oligarchs, but not to the shareholders in the production company--often including the state.²⁹

Other oil and gas industry tactics have included stock scams, transfers of shares through offshore entities for the benefit of managers at the expense of other shareholders, and other schemes that amounted to theft of corporate property.³⁰

The unanticipated and unintended consequence of this non-market "privatization" for U.S. policy was that, as first charged by former Democratic Senator Bill Bradley, the Clinton administration found itself promoting higher oil and gas prices in an attempt to help Russia--but to the obvious detriment of consumers in the United States.³¹ As the *Washington Post* reported on April 30, 2000, the Clinton administration worked to encourage "the OPEC cartel to reduce production, and thus raise prices, last year."³²

By joining OPEC's price-fixing efforts, the Clinton administration aligned itself with the interests of the oligarchs once more. Even when the world prices of oil and gas increased (with Energy Secretary Richardson, in his words, "caught napping" while oil prices rose),³³ Russia's oligarchs were enriched, while the shareholders they had cheated saw few of the benefits of higher prices. And while higher oil prices have generally helped Russia mitigate the effects of the August 1998 economic collapse, this has come at the direct expense of higher U.S. gasoline and home heating oil prices.

Legacy of Russia's Organized Crime in the 1990s

Organized crime undermines the Russian economy in a variety of ways, directly and indirectly. Beyond the horrible human toll in lives and property, the costs of organized crime include money spent on "protection" and bribes, and the significant burdens this places on small business; the lost tax, customs, privatization, and other revenue to the state; the loss of domestic and foreign investment, which is the consequence of crime's undermining confidence in the Russian economy; and the loss of individual Russians' life savings, the result of the corruption of Russian banks. Political corruption, too, is both a significant cause and effect of organized crime activity.

Through its traditional methods of discouraging competition with illegal tactics, ranging from threats to murder, organized crime has increased the risks for small and medium businesses operating in Russia. The increased costs of organized crime have made the already labyrinthine process of starting and opening a business in Russia even more difficult, scaring off would-be entrepreneurs and inhibiting the development of both a market economy and a Russian middle class.

An American Victim of Russian Organized Crime



PAUL TATUM: *Left, in a 1994 photo. Right, mourners reach to touch his coffin during a funeral service in Moscow, Nov. 14, 1996. He was eulogized as a stubborn dreamer who died standing up to danger. Contract killings have become common in Russia as means of settling business disputes. The hotel that was the subject of the business dispute involving Tatum was a favorite of Clinton administration visitors to Moscow.* Photos: AP Photo/Sergei Karpukhin, AP Photo/Sergei Karpukhin/fls

One particularly gruesome case of organized crime involves Paul Tatum, who on November 3, 1996, at age 41, was shot in the back 11 times with an AK-47. He died at the bottom of the stairs to the Moscow subway, just yards from the Radisson-Slavjanskaya hotel, of which he was a joint owner.

The slaying was immediately identified as an organized crime hit.

Tatum was the first U.S. businessman murdered in Moscow. Then-Russian Interior Minister Anatoly Kulikov said one lead the Russian government was following connected Tatum's murder to a long dispute over the ownership and management of the hotel with his partner, the Moscow city government. Tatum's Americom Business Centers held a 40% share in the hotel.

Officially, however, the Russian government turned up no suspects—even though *USA Today* was able to interview 150 people in eight countries in connection with the case, and found many who knew that Paul Tatum was a marked man.

Neither the Clinton administration nor the Russian authorities seriously pursued any culprit in connection with this contract slaying. As has proven the case with nearly all of Russia's organized crime hits, the murder went unsolved and unpunished.

"Moscow observers state that more business deals have been cut in the lobby bar of the Radisson hotel than anywhere else in Russia," the hotel bragged in a 1993 news release. However, *USA Today* reported that the Radisson-Slavjanskaya quickly became "a place where competing factions of bodyguards at times engaged in open warfare in the hallways." Respectable Russians refused to meet visiting U.S. business and government leaders in the hotel because of its reputation as a haven for gangsters. Nonetheless, the hotel was a favorite of both President Clinton and Vice President Gore.

Despite the fact that the first contract killing of a U.S. businessman in Russia was so publicly connected to a dispute over Tatum's claim that he had been cheated out of ownership of the Radisson-Slavjanskaya by the Moscow city government, and despite Congressional urging to President Clinton that he stay elsewhere in Moscow because of the hotel's connections to organized crime, the president stayed at the hotel on his next visit to Moscow.

SOURCES: Nick Allen, "Radisson Claims Business as Usual," *Moscow Times*, Dec. 5, 1996; Vanor Bennett, "Slaying Victim's Russian Partner Loses U.S. Visa," *L.A. Times*, Dec. 1, 1995; M.J. Zuckerman, Kevin Johnson, and James Kim, "Murder and intrigue: A dream dies hard in Moscow," *USA Today*, June 9, 1997.

Lost Tax Revenue

The economic consequences of tax revenue lost from organized crime are devastating. In August 1998, the State Tax Service estimated that 60% of cash turnover in the economy takes place in transactions hidden from the government in order to evade taxes.³⁴ Other Russian estimates suggest that the volume

of unreported economic activity may be up to one-half the size of Russia's official economy.

Tremendous budgetary pressures on the Russian government have influenced some of Moscow's most damaging policy decisions--including both the "loans-for-shares" privatization fiasco and the Russian government's willingness to take on tens of billions of dollars in IMF and other debt. Higher tax collections would have made such policies less desirable to the Russian government.

The Russian government has also lost significant revenue from customs payments as a result of smuggling, and the grant of customs exemptions to organized crime groups and corrupt businesses. An example of the latter is the import-fee exemption granted to the National Sports Fund--a supposed non-profit organization established in 1993 by Boris Yeltsin's former tennis coach--which permitted it to import not only sporting goods but also alcohol and tobacco tax-free, at a cost to the Russian government of several billion dollars. The total cost to the Russian government of such illicit exemptions is undoubtedly in the tens of billions of dollars annually.³⁵

The failure to collect taxes on criminal transactions has also exacerbated the Russian government's unfunded wage³⁶ and pension debts³⁷ to state sector employees³⁸ and retirees.

Lost Confidence

The most significant cost of Russian organized crime has been its contribution to the widespread loss of confidence in the nation's economy. Not only have foreign investors been scared away, but potential Russian investors have mounted a sustained capital flight that has depressed investment and domestic savings, stifled job creation, and robbed the government of opportunities for revenue growth.

Most estimates of capital flight from Russia since its independence exceed \$200 billion; some are as high as \$500 billion. Irina Khakamada, a reformist parliamentarian who chairs Russia's National Anti-Corruption Committee, estimated the cost to Russia of capital flight at a stunning \$20 billion per month.³⁹ Treasury Secretary Summers, in recent House testimony, provided a low estimate of \$15 billion per year.

Even the most conservative estimates of Russian capital flight dwarf actual foreign investment in Russia, as well as IMF lending and international financial aid flows into Russia.⁴⁰

History's Biggest Money Laundering Scandal

In the summer of 1999, the Clinton administration's Russia policy--already under fire in the wake of the 1998 collapse of Russia's economy, which many Russians blamed on bad American advice--suffered another setback.

On August 19, 1999, the *New York Times* reported that billions of dollars were thought to have

been laundered from Russia through the Bank of New York. Initial reports in the *Times* and elsewhere suggested that as much as \$10 billion may have passed through Bank of New York accounts, with the knowledge and approval of several bank employees. More than two-thirds of the money came from the tiny Pacific island-nation of Nauru, not previously known as a financial center. And many of the transfers originated at a Moscow bank chaired by a financial advisor to the Yeltsin family known as the "ghost of the Kremlin" for his secretive ways.

Subsequently, three bank employees--Lucy Edwards, former vice president of the Bank, Peter Berlin, her husband, and Svetlana Kudryavtsev, who worked for Edwards--entered guilty pleas in connection with the case. Another vice president was fired for allegedly failing to report supplemental income from Russian clients and yet another employee resigned because of the scandal.

A year later, in August 2000, a Swiss judge investigating the possible use of banks there to launder a 1998 IMF loan to Russia carried out two raids in Switzerland. In August 2000 the judge traveled to the United States to determine why investigators here had largely ignored requests for information about possible links to the Bank of New York case since January, in what is now acknowledged to be history's largest money laundering scandal.

The Money Trail

Russia's lack of hard currency, and the contemporaneous flows of billions in hard currency from the IMF to Moscow, made it appear that the United States and other Western countries had provided the necessary liquidity for money laundering to occur.

In September 1998, British authorities alerted the FBI to an extraordinary volume of money being transferred in a significant number of transactions.

Two years later, the Clinton administration has yet to recognize that its policy of pouring large amounts of dollars into the Russian central government was financing not a transition to free enterprise but rather capital flight on a massive scale.

The Spin: More Willful Blindness

Then-Deputy Treasury Secretary Lawrence Summers, at a House Banking Committee hearing in September 1999, denied any connection between IMF money and Bank of New York laundering: "With respect to the Bank of New York, there's no evidence that...there were any IMF funds diverted in that context."

Summers acknowledged, however, that capital flight "drains perhaps \$15 billion a year from the Russian economy." Whether IMF funds were directly laundered through the Bank of New York, or instead fueled capital flight by providing the means for Russian oligarchs to convert rubles to dollars, it was clear that IMF funds were financing capital flight from Russia.

Deny and downplay was the strategy for Deputy Secretary of State Strobe Talbott, as well. In a *Newsweek* interview, Talbott minimized the multi-billion dollar scandal with a dismissive plea to "calm down, world." Then, resorting to a standard spin technique--treating breaking news as

if it were unimportant because it is really "old news"--he added: "We have been aware from the beginning that crime and corruption are a huge problem in Russia and a huge obstacle to Russian reform."

The IMF's Köhler, in office just three months, had a less defensive explanation at the National Press Club in August 2000: "Part of the mistakes we made was mostly because we had been too euphoric, relying on rhetoric about reform programs. We need to see more implementation of the good ideas."

But the bad ideas had already done their harm.

In addition to raising awareness about the extent of Russian money laundering and capital flight, the Bank of New York scandal triggered concern that Russian criminal groups and individuals had infiltrated Western financial institutions. As the *Economist* reported, the money-laundering scandal "confirms that the evil of organized crime is woven into Russian life--and that it is starting to infect the rest of the world."

What Did They Know and When Did They Know It?

House Banking Committee Chairman James Leach noted that while the British authorities notified the FBI about the Bank of New York irregularities in September 1998, the Treasury Department claimed not to have learned of the investigation until April 1999.

In any event, the administration continued to support IMF lending for Russia even in the face of hard evidence of massive looting. "The Congress," Chairman Leach noted when Summers testified, expects "substantially greater coordination within the Executive branch."

Washington Post columnist David Ignatius was not so statesmanlike in asking bluntly: "Did Al Gore know about the massive lootings?"

SOURCES: Raymond Bonner and Timothy L. O'Brien, "Activity at Bank Raises Suspensions of Russia Mob Tie," N.Y. Times, Aug. 19, 1999, p. 1; Wall St. J., Mar. 29, 2000, p. B5; Ann Davis and Paul Beckett, "Bank of New York Executive is Fired for Not Reporting Pay Linked to Benex," Wall St. J., Mar. 13, 2000, p. A15; John Thornhill and Thomas Catan, "NY bank in money laundering probe," Fin. Times, Aug. 20, 1999, p. 2; Paul Beckett, Michael Allen, "Bank of New York Probed on IMF Aid," Wall St. J., Aug. 23, 1999, p. A3; Deputy Treasury Secretary Lawrence Summers, testimony before the House Banking Committee, Sept. 21, 1999; John Tagliabue, "Swiss Take New Look at Transfers of I.M.F. Aid for Russia," N.Y. Times, July 26, 2000, p. C3; Charles Clover, "Swiss Confirm IMF/Russia Credit Inquiry," Fin. Times, July 25, 2000; "Russian Organized Crime: Crime Without Punishment," The Economist, Aug. 28, 1999, p. 17; Michael Hirsh, Owen Matthews, "The Gangster State," Newsweek, Sept. 6, 1999, p. 35; Richard W. Stevenson, "U.S. Officials Acknowledge Early Notice of Bank Case," N.Y. Times, Sept. 8, 1999; Chairman James A. Leach, House Banking Committee hearing, Sept. 21, 1999; David Ignatius, "Who Robbed Russia?" Wash. Post, Aug. 25, 1999. Russia reduced its IMF debt from \$16.3 billion to \$12.7 billion from July 31, 1999 to July 31, 2000, according to IMF figures.

Organized crime in Russia exerts significant direct control over the nation's banking system. As the CSIS study concludes, "[Organized crime] shaped the post-Communist banking industry and now manages or influences it. And bank regulators complain they are powerless to sanction or close banks in which evidence of criminal wrongdoing has been established beyond the shadow of a legal doubt."⁴¹ The study further noted: "Banks are central components of [organized crime] activity [in Russia] both as a primary target of extortion and as the main vehicle for extensive money laundering."⁴²

Organized crime imposes indirect costs on Russia's banking system, as well. Russians are fearful of keeping their rubles in banks because they believe corrupt bank employees are likely to inform organized crime groups of the accounts in exchange for a cut of money to be extorted from the account holder. Partly as a result of these fears, ordinary Russians held an estimated \$80 billion outside the banking system as of 1998.⁴³

Organized crime thereby robs the economy of the opportunity to efficiently pool savings to invest in mid- to large-scale productive enterprise. The reluctance by Russian consumers to trust the banking system because of the influence of organized crime also worsened cash shortages at the nation's banks during Russia's economic collapse in 1998.

Guilt by Association

By eroding public confidence in the private economy--and by stunting the establishment and growth of legitimate business--organized crime has limited the emergence of a pro-free enterprise reform constituency, making it more difficult to achieve the public consensus necessary to enact legislation to legalize free enterprise.

The fact that so many wealthy Russians criminally obtained a large proportion of the wealth that now exists in Russia has significantly discredited legitimate commercial activity. This problem is particularly acute in Russia because of its limited experience with a market economy.

Beyond undermining support for a truly competitive market economy, the rise of organized crime has meant aggressive support in the Russian political system for the *opposite* of reform. In what has been derisively termed "reinventing government," crime bosses and leaders of illicit businesses thwarted police investigations and placed themselves and their allies in high office--including seeking seats in Russia's State Duma--not only to legislate to their advantage, but also, on a more practical level, to win immunity from investigation and prosecution.⁴⁴ Staff positions in the Duma have been notoriously made available for sale.⁴⁵

Duma committee chairmen have been accused of holding committee meetings or hearings on an issue of importance to an individual or enterprise in return for cash payments. Members of Vladimir Zhirinovskiy's Liberal Democratic Party of Russia, a notoriously mercenary extremist party, are widely suspected of selling their votes on particular legislation to the highest bidder.

At the regional and local level, organized crime groups have intervened directly in the election process, financing candidates, buying votes, and intimidating opponents. This highly visible corruption of Russia's political system has only further weakened public support for continued democratization.

Organized crime also affects overseas businesses, including U.S. firms seeking to do business in Russia. Some companies are merely approached to pay protection money or bribes; others suffer more seriously when their investments in joint ventures are looted by Russian partners. The resultant lawlessness threatens to infect governments and economies around the world with the consequences of money laundering, bribery, extortion, and their attendant social pathologies.

Arms Sales to Colombia's Narco-Insurgency

Organized crime in Russia is also contributing to global instability. The arming of Colombia's Marxist rebel groups with smuggled weapons made in Russia has profound foreign policy consequences. The Revolutionary Armed Forces of Colombia (FARC) and the National Liberation Army (ELN), violent Marxist groups seeking to overthrow the government, now control about half of Colombia, directly threatening the continued existence of civil government there.⁴⁶ These groups are also heavily involved in narcotics trafficking: out of the \$4 billion annual Colombian drug trade, FARC and the ELN are now presumed to net an estimated \$600 to \$900 million each year.

Four-fifths of the cocaine and more than 60% of the heroin entering the U.S. now comes from Colombia.⁴⁷ Behind this growth in cocaine exports is a growing relationship between Russia's organized crime and Colombia's drug lords.⁴⁸

Colombian intelligence officials suspect that Russian criminal syndicates are exchanging sophisticated Russian weapons for Colombian drugs.⁴⁹ This has enhanced the military power of Colombia's Marxist rebels and international drug cartels, further destabilized the government of Colombia, and facilitated the entry of additional narcotics into the United States.⁵⁰

In the last three and a half years, Colombian police have seized over 700 new Russian-made AK-47 assault rifles that were destined for FARC and ELN. Colombian police confirm that these weapons are unlike the Soviet weapons used in earlier Central American wars, and of much more recent vintage.⁵¹

A system has developed by which FARC and ELN guerrillas exchange illegal narcotics for sophisticated Russian weaponry. In this way, the latest Kalashnikov assault rifles and Dragunov sniper rifles have been shipped to Colombia in the same transport containers originally used to transport the drugs.

This burgeoning weapons trade with Colombia's Marxist insurgents thus threatens not only U.S. anti-proliferation objectives, but also U.S. regional security interests in Central America and the domestic struggle against illegal narcotics in the United States. The U.S. counternarcotics effort is now pitted directly against smuggled Russian arms. American taxpayers, and American interests, now face the effects of organized crime in Russia in this hemisphere.

Nor are Russian drug and weapons smuggling limited to Colombia or the Western hemisphere. According to Barry McCaffrey, Director of the President's Office of National Drug Control Policy, Europe now consumes between 80 and 130 tons of cocaine a year, and at least 10 tons of this cocaine is shipped through Russia, with Russian criminal groups controlling the routes.⁵² As the 1997 CSIS study found, "[organized crime] groups also are facilitating narcotics trafficking along new transit routes from major heroin-producing areas in Asia (the Golden Triangle and Golden Crescent) that cross the former Soviet Union, thus avoiding searches by West European law enforcement agencies along the more traditional routes."⁵³ Similarly:

[Organized crime groups] are trafficking increasingly in weapons by exploiting corruption, subhuman living conditions, and chronically late wages in the Russian military. This leverage gives them access to arms stockpiles. Theft and illegal sale of weapons, hardware, and narcotics are moved by military transport vehicles that cannot be searched by law enforcement officials. Western intelligence agencies believe that short- and medium-range missiles have been smuggled to customers in the Middle East in this manner.⁵⁴

The Gulf Between Clinton's--and Yeltsin's--Words and Deeds

Organized crime's political influence has also had a more subtle effect: neutering the government's willingness to confront and punish violations of law. The result has been a significant gulf between both the United States and Russian governments' stated policies with respect to organized crime, on the one hand, and their actual behavior, on the other.

For example, Boris Yeltsin launched seven campaigns in eight years as president to combat organized crime. Yet organized crime groups expanded because punishment was generally limited to low-level officials and those out of favor with the Kremlin. The growth of organized crime in the face of ineffective government campaigns against it has contributed to public cynicism.

Similarly, official statements of concern about money laundering were unmatched by action. The Russian government, in fact, served as an enabler of money laundering. On June 23, 2000, the G-7's Financial Action Task Force identified Russia as one of 15 nations that was "uncooperative" with international efforts to combat money laundering.

The Russian government's ostentatious introduction of new measures to fight corruption has routinely been followed by extensive public discussion of which individuals and political opponents are the "real" objectives and targets. The influence of Russia's so-called oligarchs over Russia's mass media has heightened this cynicism, as press outlets are viewed as the mouthpieces of particular economic and political groups, rather than defenders of the public interest. Under such circumstances, each new effort at reform has been met with increasing skepticism.

The Clinton administration, mirroring the policies of its Russian partners, has similarly failed to mount an aggressive challenge to organized crime in Russia. The administration has attempted to address organized crime merely as a technical law enforcement problem with programmatic assistance to Russian authorities. The administration has concentrated on programs such as law enforcement training and developing an FBI presence in Moscow.

Clinton administration law enforcement officials claim these efforts to combat Russian organized crime are succeeding, crediting FBI Director Louis Freeh with establishing an aggressive Eastern European organized crime policy when he took office in 1993.⁵⁵ But in fact the administration's technical orientation to Russian organized crime cannot substitute for its failure to address the underlying economic and legal causes of organized crime.

A serious U.S. policy to help combat organized crime in Russia would also have required a significantly more candid assessment of the various Russian political players with whom Vice President Gore and other top administration officials were dealing, and a far greater willingness to distance themselves from

corruption. As the democratic politician Grigory Yavlinsky has noted, "political will rather than the Criminal Code is needed."⁵⁶ The administration's close association with officials suspected of corruption did little to encourage that political will in Russia.

Likewise, the Clinton administration failed to make the issue of organized crime a significant priority in its official discussions with Moscow. Yevgeny Yasin, a reform-oriented former senior official in Russia with key economic responsibilities during much of the Yeltsin era, recently criticized the Clinton administration for failing to cooperate in addressing corruption and capital flight. Yasin complained that Russian attempts to raise these issues and seek U.S. assistance as early as the 1995 Halifax Summit were dismissed.⁵⁷

Deputy Secretary of State Strobe Talbott has also admitted that the Clinton administration did not give sufficient priority to the problem of Russian money laundering.⁵⁸

Statements of concern by the Secretary of State, and pro-forma discussions of organized crime as one among a long list of agenda items at the semi-annual meetings of the Gore-Chernomyrdin Commission, were a poor substitute for genuine moves to show the Kremlin the seriousness of American resolve to fight organized crime, and to make explicit the threat that it poses to United States and Russian national interests. The Clinton administration never made explicit any consequences for Russia's failure to address organized crime, either in the form of loan conditions or the withdrawal of U.S. cooperation on other fronts. Indeed, when combined with the administration's unwillingness to confront the evidence of corruption by its principal interlocutors in Russia, the Clinton administration's tepid approach to Russian organized crime amounted to tacit acceptance.

Three years ago, CSIS's task force report on Russian organized crime included among its recommendations:

Stringent requirements to ensure transparency in Russia's use of foreign aid, as well as multilateral loans and export financing, should be implemented and enforced to insulate the funds from [organized crime] and to ensure that the funds reach their intended destination.

Close U.S. government identification with corrupt elements of Russia's political establishment risks serious popular backlash inside Russia. The United States must avoid the appearance of unqualified support for what is routinely seen as a kleptocratic establishment. Such linkage reinforces a growing popular perception that democratic political and market economic systems are merely code words for rapacious criminality. The United States should address this perception by increasing its public diplomacy discussion of the causes of and cures for [organized crime in Russia].⁵⁹

Such recommendations were ignored by the Clinton administration. For example, when Deputy Secretary of State Strobe Talbott and then-Deputy Treasury Secretary Lawrence Summers met with Anatoly Chubais at Talbott's home in May 1998 (where Chubais sought a new IMF bailout to stave off the disaster that occurred three months later),⁶⁰ why would corrupt Russian officials believe that American protests over corruption were more than public relations? By that time, Chubais had become wealthy by participating in the privatization process he was charged with supervising. He had also simultaneously been responsible for the management of the Russian Privatization Center, which has never produced an accounting for its use of \$116 million in U.S. direct aid.⁶¹

In the Summer 2000 issue of the *National Interest*, E. Wayne Merry, a former diplomat at the Moscow Embassy, summarized the problems with the Clinton administration's approach:

Washington officials claimed to be 'shocked, shocked' when the government-sanctioned corruption and theft of public property in Russia could no longer be hidden. They then piously demanded that Russian governance be all the things the Treasury and IMF had insured it would not be: honest, accountable, transparent, law-based, public-spirited. ... [W]hat remains "classified" is much worse.

The Rise of Putin: The Russian Public Reacts to Organized Crime

The impact of organized crime on Russian democracy has proven grave. It has generated a deep sense of personal insecurity among Russians and widespread perceptions of declining public morality. Public opinion polls, which understandably rank crime among Russians' greatest concerns, also show the extent to which organized crime has undermined the Russian public's support for freedom and democracy.

Because the rapid growth in organized crime and Russia's efforts at political and economic reform occurred simultaneously, the public mind closely linked the two. As a result, the ideas of democracy and market-oriented economic reform have also been widely discredited in Russia, and are widely assumed to be inconsistent with greater order:

Widespread violence and crime in Russia are even beginning to generate nostalgia for authoritarian rule. Flagrant lawlessness has resulted in a resurgence of politicians who promise to re-establish order and fairness using brute force. Increased criminal activities fueled the backlash that contributed to ultranationalist Vladimir Zhirinovsky's electoral success in 1993. Zhirinovsky's platform included on-the-spot executions of criminal gang leaders by firing squads and the wholesale seizure of assets thought to be criminal.⁶³

Yet it is ironic that the primary reason organized crime has grown into such a significant parasite on the Russian economy was the top-down "privatization" of state-owned monopolies, instead of the bottom-up legalization of entrepreneurial activity that was (and still is) necessary to enable start-up enterprises without criminal roots to compete in a genuine market. It was the lack of a genuinely competitive market economy that created the conditions for organized crime to flourish. Rather than unleashing the disciplinary power of competitive markets, the Gore-Summers-Talbott policy of massively underwriting the Russian central government had the effect of indirectly funding organized crime through IMF and World Bank loans.⁶⁴

President Vladimir Putin's success in capitalizing on the public's longing for greater order can only be understood in this context. Taking into account the fact that some 62% of Russians are not confident in the ability of the country's police forces to protect them,⁶⁵ it should not be surprising that Putin's background as a KGB Lieutenant Colonel and head of the Federal Security Service (FSB), the KGB's principal successor agency, enhanced rather than impaired his popular appeal. His KGB past has contributed significantly to a public perception that he will "get tough" on organized crime. His election was a gamble for Russians, nonetheless: they have only hope, and no guarantee, that he will not similarly crack down on civil liberties, freedom of speech, and democracy.

Which way Putin and Russia will go is yet unclear. But this much is certain: the rebirth of authoritarianism because of a popular backlash against organized crime in the wake of both Russia's and America's failure to promote genuine free enterprise there is now a genuine possibility in Russia. Its

return would be a tragic beginning indeed for the 21st century.

CHAPTER 8

1998: YEARS OF BAD ADVICE CULMINATE IN RUSSIA'S TOTAL ECONOMIC COLLAPSE



SEARCHING FOR FOOD: Following the complete collapse of the Russian

economy in 1998, the number of people living below the official poverty line--in Russia, a measure of truly desperate conditions--rose to nearly 40%. Seniors in urban areas--with no access to jobs or land--were the hardest hit. Unlike those in rural areas, who could subsist on homegrown food, they had nowhere to turn. As in Soviet times, Russians were waiting in lines, hunting for scarce goods, and hoarding what they could find. The devastation of Russian life was by all measurements worse than America's Crash of 1929. U.S. unemployment at the end of 1929 reached 1.5 million, representing 1.2% of the total population, but more than 11.3 million Russians were jobless at the end of 1998--7.7% of the nation's total population. In the 1929 crash, stock prices fell 17% by year-end--and 90% by the depth of the Great Depression, four years later. By contrast, the Russian stock market lost 90% of its value in 1998 alone. Millions of ordinary men and women who had deposited their money in Russian banks lost everything. Here, an elderly Russian woman takes fruit from a trash bin in Moscow, August 28, 1998. AP Photo/Misha Japaridze

I try, but they are hungry all the time.

Potatoes, potatoes, most of all they eat potatoes. It is potatoes all the time. I am just trying to feed them.

Tatyana Shurmanova, a mother of six children in Kungur, Russia, as quoted in *Newsday*, April 4, 1999

On March 23, 1998, five months before the Russian government's default on its international and domestic debts led to the nation's complete economic collapse, Viktor Chernomyrdin was fired as Prime Minister. The allegations of corruption against him had only reinforced the public impression that the policy of a handful of powerful Russian officials was not the construction of a free enterprise system, but rather the subversion of the public good through crony capitalism.

The unexpected firing of Chernomyrdin, Vice President Gore's partner in the highly visible Gore-Chernomyrdin Commission, unnerved Clinton administration officials. They were just as unprepared for the appointment of the little-known Sergei Kirienko to replace Chernomyrdin. Lawrence Summers, then Deputy Secretary of the Treasury, had inauspiciously dubbed the outgoing Prime Minister's deputies, Boris Nemtsov and Anatoly Chubais, "the Dream Team."¹ Summers' characterization epitomized the wishful thinking of the administration, and its willful blindness to the worsening reality in Russia.

As late as the summer of 1998, the Clinton administration still failed to grasp the fundamental error of its policy of funneling enormous amounts of money into a corrupt central government. Despite widespread rumors that Kirienko, too, would soon be fired, the administration proposed nothing more than pouring still more loans from the International Monetary Fund (IMF) into Russia's central

government. Vice President Gore, Treasury Secretary Robert Rubin, and Summers set to work on an additional \$18 billion U.S. commitment to the IMF chiefly intended to support new lending to Russia.

"We have a significant opportunity to use the leverage of IMF financing to help the Russian government," Rubin wrote to then-House Speaker Newt Gingrich on July 28, 1998. "The basics are all in the right direction," Stanley Fischer, the IMF's Deputy Managing Director, said the same day.² The administration successfully forced the \$18 billion through Congress.

The reality of the situation, however, was that the Russian economy had already begun to collapse. The stock market was plunging. The day before Rubin's letter to the Speaker of the House and the IMF's blindly upbeat assessment, the market had suffered a 9% drop. "It's looking ugly," said one Western economist on July 27. Said another Western investment strategist: "We're sitting and watching this in shock and horror."³

Over the next two weeks, the deterioration continued. Finally, on August 17--one month after the latest bailout--the roof caved in.

The Russian government announced that it would no longer be able to pay its official debts. The ruble was devalued at the same time. The default, coupled with the devaluation of the ruble after years of promises that this would not occur, led to Russia's total economic collapse--a cataclysm by all measurements worse than America's Crash of 1929.

The end of Soviet Communism had afforded the United States its greatest foreign policy opportunity since the Allied victory in World War II. Barely six years later Russia's economy lay in ruins--an opportunity lost.

The Crash of 1998

The disaster that began on August 17, 1998, spread immediately throughout Russia. In just 24 hours, some retailers raised prices by more than 30%.⁴ The free-falling ruble forced shopkeepers to raise prices daily, even hourly. "People are in a state of shock," one Russian woman told the *New York Times*.⁵ Prices in the first week of September alone rose by 36%.⁶



RUN ON CASH: A security officer tries to prevent a photographer from taking pictures as a man withdraws cash from an automatic teller machine in Moscow on Friday, Aug. 14, 1998. Customers said the bank only allowed them to withdraw money in rubles, even from accounts established in U.S. dollars. Individual deposits in Russia--which before August 17 had totaled some \$27 billion--fell in value to less than \$12 billion. Shortly afterward, virtually all ATMs in Russia ceased to function. AP Photo/Maxim Marmur

Millions of ordinary men and women who had deposited their money in Russian banks lost everything. Savings accounts throughout the country were frozen.⁷ ATM and debit cards ceased to work.⁸ Dozens of banks became insolvent and disappeared. Angry depositors besieged Russian banks, only to learn they had been wiped out. Within days, individual deposits in Russia--which before August 17 had totaled some \$27 billion--fell in value to less than \$12 billion.⁹

Still more millions of senior citizens, whose meager pension income had been delayed for months, were cut off completely. Pensioners who kept some money at home rather than in banks found their purchasing power greatly diminished as the value of the ruble plummeted.

At the end of 1929, following America's disastrous stock market crash, unemployment in the United States reached 1.5 million, representing 1.2% of the total population.¹⁰ But the 1998 collapse of the Russian economy was far worse. Over 11.3 million Russians were jobless at the end of 1998--7.7% of the nation's total population.¹¹

Those who kept their jobs frequently found their wages suspended.¹² When wage payments were finally made, the average Russian saw his or her wages drop by two-thirds, from \$160 to \$55 per month.¹³ The number of people living below the official poverty line--in Russia, a measure of truly desperate conditions--rose to nearly 40%.¹⁴ The standard of living for the average Russian, already low by international measures, plummeted by 30%.¹⁵

In urban areas, Russian families with children and seniors--with no access to jobs or land--were the hardest hit. Unlike those in rural areas, who could subsist on homegrown food, they had nowhere to turn. As in Soviet times, Russians were waiting in lines, hunting for scarce goods, and hoarding what they could find. Such staples as flour, butter, rice and sugar were purchased as soon as they appeared on shelves. Retailers found it difficult to restock inventories.¹⁶

The devastation of Russia's economy wreaked the kind of human misery that America experienced in the Great Depression. By 1932, the U.S. gross national product had been cut by almost one-third. But within just six months of the 1998 crash, Russia's economy, measured in dollars, had fallen by more than two-thirds. From \$422 billion in 1997, Russia's gross domestic product fell to only \$132 billion by the end of 1998.¹⁷

In the crash of 1929, stock prices fell 17% by year-end--and 90% by the depth of the Great Depression, four years later. By contrast, the Russian stock market lost 90% of its value in 1998 alone.¹⁸

Foreign investment in Russia plummeted by 60%. Amid a wave of panic among investors, foreign direct investment fell from \$4 billion in 1997 to \$1.7 billion in 1998.¹⁹ "The financial markets are dead," said Sergei Markov, an analyst at the Institute of Political Studies. "And, most fundamentally, it is a crisis of the real economy--Russia doesn't work."²⁰

By the first week of September, the ruble had lost 60% of its value.²¹ When the dust finally settled in March 1999, the ruble--and with it, every Russian's life savings--had lost fully 75% of its value.

The most immediate and dramatic result of the Crash of 1998 was the virtual collapse of Russian banking. The government imposed a two-month freeze on withdrawals from the country's six largest private banks. With the ruble dropping precipitously in value every day, ordinary Russians were forced

to watch in horror as the money in their bank accounts lost its value. The experience of 66-year-old Yevgeny Ushakov, who had spread his life savings of \$4,000 among three different banks to diversify his risk, was illustrative. "I didn't think all three would fail," he said.²²

With prices rising uncontrollably, retail stores were forced to close repeatedly throughout the day, just to figure out how much to charge.²³ Even those Russians who had become accustomed to the occasional Western product were forced to do without, as the price of imports soared beyond their reach.

The collapse of international trade not only curtailed the supply of foreign goods, but also created scarcities and high prices for Russian-made goods with foreign components. Foreign providers refused to let Russian firms buy on credit, because of fear of non-payment. Wary of the declining ruble, foreign suppliers also demanded payment in hard currency, which most importers did not have. Such indignities added to the growing anti-Western sentiment.

The lack of a reliable currency reduced much of Russia to a barter economy. Many citizens were paid with whatever goods were currently available, regardless of the goods' practical value. Teachers in Voronezh, for example, received cemetery headstones in lieu of cash payments.²⁴ A textile machinery plant in Kostroma tendered 6,000 pairs of socks to the local police in payment of its tax bill.²⁵

Farmers were devastated by the 1998 economic collapse. Grain harvests fell 30% below 1997 levels. The sudden impact of the ruble devaluation was especially harmful because existing levels of farm production were already depressed, having fallen for years. In Kaluga, for example, local production had fallen by 22% in the four years prior to the crash.²⁶ Shortages of meat and cooking oil were so severe that humanitarian food aid from the West, which had not been necessary since the collapse of Communism, was resumed on an emergency basis.²⁷



DEJÀ VU:irate and bewildered customers at the closed doors of the Bank of United States, in New York City, Dec. 11, 1930. After the collapse in Russia, banks hired guards who let customers in one at a time to determine the fate of their savings, much of which was wiped out in the August 1998 collapse. AP Photo

The fallout from the economic collapse greatly exacerbated many of the problems that plagued Russia. In addition to the unemployment, lost wages and pensions, and financial hardship, there has been an attendant social crisis.

Those who were sick or under a doctor's care were badly hurt by the crash. Russia's health care system, in poor shape even before August 1998, suffered a run on medicine that quickly reduced supplies in hospitals and pharmacies to Soviet-era levels. The collapse of the ruble's value, the widespread unemployment, and the freeze on savings, wages, and pensions left millions of patients unable to pay for

medical services.²⁸

Hospitals suffered from shortages like every other Russian business. Drugs, always in short supply, became even more difficult to come by--particularly those that had to be imported. Nurses and doctors were forced to ration drugs to patients. In Novosibirsk the main hospital was reduced to a five-day supply of food. The central hospital serving a community of 1.4 million citizens had no milk for patients, and drugs sufficient to handle only 20 cases of severe injury.²⁹

The 1998 economic crisis also helped worsen Russia's demographic crisis. According to the Russian Statistics Agency, Russia's population has fallen every year since 1992.³⁰ Deaths outnumbered births by 784,000 in 1999, the year following the crash.³¹ Russia's birth rate of 1.3 children per woman falls well below the 2.1 needed to maintain the current population. Over the next 16 years, if current trends continue, the Russian population will drop to between 130 and 138 million, compared to 146 million today. Murray Feshbach, the leading Western expert on Russian demographics, projects a population of just 80 million by 2050 if Russia does not arrest its social problems.³² The population decline is expected to continue because of lower standards of living and mounting divorce, which in turn contribute to Russia's depressed birthrate.

The economic hardship of raising a child is a significant factor in Russia's sky-high abortion rates: for every birth in Russia, there are now two abortions.³³ As women in poor health give birth to less healthy children, the rate of infant mortality, too, is expected to grow. The CIA estimates Russia's infant mortality rate at 23 deaths per 1,000 live births.³⁴

Drug use and addiction in Russia have skyrocketed, fueled by growth in organized crime and widespread economic depression. More than 3 million Russians are habitual drug users, according to the Ministry of Interior.³⁵

Alcoholism, a chronic problem in Russia, has grown worse as economic conditions have deteriorated: according to a January 2000 report, the number of deaths resulting from alcohol poisoning is 35,000 per year, compared to 300 a year in the United States.³⁶

Russia's widespread joblessness, poverty, and drug use have led to an increase in crime, homelessness, unemployment, and school dropout rates.

The jump in drug use has also led to an increase in HIV infections. According to Russian and World Health Organization officials, drug addicts account for 90% of all HIV-infected people in Russia. The collapse of the Russian economy in 1998 coincided with a doubling of the number of people living with HIV: Russia's HIV population literally doubled between 1997 and 1999--the fastest growth rate in the world.³⁷ According to Russia's leading epidemiologist, Dr. Vadim Pokrovsky, 10% of Russia's population will have the HIV virus by 2005.³⁸ Tuberculosis, which has increased by 57% from 1994 to 1998, has reached near epidemic proportions in parts of the country.³⁹

Causes of Russia's Economic Collapse

Russia received its first loan from the IMF in April 1992, for \$1 billion. In 1993, the Russian government took out another loan, this time for \$1.5 billion. A year later the IMF provided still another \$1.5 billion. By December 31, 1995, the Russian central government had borrowed over \$10 billion

through the IMF. When on March 26, 1996, the IMF and Russian central government reached final agreement on a new loan of \$10.2 billion--the second-largest loan ever made to any borrower by the IMF--many outside observers were dumbfounded.

In a single commitment, the IMF was preparing to flood the Kremlin with more money than it had disbursed in the more than four years since the end of the Soviet Union. The extension of such significant new credit was surprising because there was little in the way of basic free market reform legislation in place to justify it. There was still no market in banking services, no reliable protection for private property rights, no mortgage lending, and no honest system of commercial dispute resolution.

IMF Managing Director Michel Camdessus asserted that the enormous new lending was in furtherance of a program of "free market reforms," but in fact the commitment had a political aura. At a time when the Russian government was spending exorbitant amounts on the 14-month-old war in Chechnya and on extravagant election campaign promises, there were virtually no strings attached, no effective legal commitments as to how the proceeds should be spent, and no effective monitoring and accounting controls to track where the billions of dollars were going. Camdessus described it as a gesture of support for Russia: "We have a program, we have a country which needs support. It is our duty and moral obligation to support this country."⁴⁰

Yeltsin was more forthright about the political nature of the IMF commitment. "We had to involve Clinton, Chirac, Kohl, and Major," he said.⁴¹ In fact, Clinton had endorsed the loan a month before the details of the commitment were even agreed upon. Because of the heavy U.S. influence on the IMF, his endorsement left little doubt that the loans would be made. The United States is the only country in the world with veto power over IMF actions. Using this influence, the Clinton administration turned the IMF into an agent of U.S. policy in Russia.

From the administration's standpoint, the disbursement of the IMF moneys would help pave the way for Clinton's planned visit to Moscow in April of that year and shore up the team chosen by the administration to carry out Western aid policy.

On the merits, there was little economic justification for extending the IMF package in March 1996. The loans-for-shares ersatz "privatization" of major Russian industries into the hands of a few insiders was already notorious. The poor state of Russia's official budget and finances made it implausible to assume that the government would ever repay the latest IMF loan. Worst of all, the loan did not effectively stipulate economic conditionality: in the first year alone, the IMF granted three waivers for "nonobservance of performance criteria."⁴² The Clinton administration's decision to extend yet another IMF loan was purely political.

Many in the West and in Russia argued against burdening Russia with more IMF debt. Boris Fyodorov, a former Russian Finance Minister, immediately criticized the decision. "This money corrupts the system," he said the day the deal was announced. "The moment you get a billion dollars, you delay the necessary reforms."⁴³

The sheer size of the loan caused concern among many other observers.⁴⁴ Prior to March 1996, the largest amount of money given to Russia from the IMF was \$6.8 billion in April 1995. The 1995 loan had been more than a six-fold increase from the first loan to Russia in 1992. With this 1996 loan, the Russian central government had borrowed close to \$15 billion from the IMF alone. Moreover, the IMF's sister institution, the World Bank, had provided billions more in loans to the central government since 1992. A further \$30 billion in direct bilateral assistance had been given to the Russian central government by Germany, the United States, and other countries.

Moreover, to the extent that the Clinton administration did hector for "reform," it repeatedly prescribed bad medicine.

During America's Great Depression, the infamous Smoot-Hawley tariff and President Hoover's 1932 income tax increases were widely credited with shrinking the U.S. economy in an attempt to increase tax revenues. Likewise, the Clinton administration saw the root of Russia's problems as the decline in government revenues--as if Russia's mistake had been failing to impose sufficient government levies on the struggling Russian economy.⁴⁵



DESPERATE FOR MEDICINE: A pharmacy clerk looks for insulin on a shelf, while a Russian woman waits in Moscow, Dec. 11, 1998. Russia's 2.2 million diabetics rely on imported insulin, but imports dried up when the government devalued the ruble. AP Photo/Oleg Nikishin

While Russia's revenue stream was indeed declining, it was declining due to the contraction of the economy itself. The Clinton administration's insistence on raising taxes was in part responsible for the worsening crisis, as Russia sought to squeeze more taxes from the economy.

In place of concrete steps to establish the building blocks of a free enterprise economy, the Clinton administration used the loans to attempt to induce Russia to reduce its budget deficit to stipulated targets: 4% of GDP in 1996, 3% in 1997, and 2% in 1998. These goals were never reached.⁴⁶ To the contrary, as the Russian government continued to borrow, the rising costs of debt service added to the strain on the budget.

In March 1997, when Nizhny Novgorod Governor Boris Nemtsov was appointed Deputy Prime Minister, then-Deputy Treasury Secretary Lawrence Summers dubbed the new Russian economic team of Nemtsov and Chubais the "Dream Team"--a typical example of the administration's tendency to support individuals rather than actual policies. The "dream," however, soon turned into a nightmare for 146 million Russians.

The Stock Market Bubble Bursts

Vice President Gore, Treasury Secretary Rubin, and Deputy Treasury Secretary Summers were not the only people taken in by the Chubais "Dream Team." In mid-1997, the Russian stock market--hyped up on billions from IMF, World Bank, and bilateral aid that initially permitted the Russian Central Bank to accumulate reserves at a pace of \$1.5 billion a month--became the world's leading developing country stock market, as speculators chased stratospheric investment returns.⁴⁷

The economic momentum, however, was exceptionally short-lived; it would not even last the year. By the fall of 1997, the trends were again all negative.

The onset of the economic crisis in Asia had reminded investors in emerging markets to pay attention to fundamentals, which for the Russian economy were not encouraging. Continued low gas and oil prices worldwide reduced the value of Russia's energy exports, and the lack of productivity improvement in the private sector was quickly erasing the justification for high stock prices.

After the brief euphoria, investment continued to decline in 1997; capital investment amounted to less than 24% of the Soviet-era level of 1990.⁴⁸ Capital flight at a rate of \$2 billion to \$3 billion per month (equivalent to between 4% and 10% of Russia's entire GDP)⁴⁹ was becoming a major drain on the Central Bank's foreign currency reserves.

For many Russian businesses, debts and liabilities significantly outweighed assets. Back wages rose to more than \$4.4 billion by the end of 1997, and reached as high as \$5.6 billion by July 1998.⁵⁰ At the start of 1998 business-to-business debt amounted to roughly \$40 billion, while businesses' unpaid debt to the government totaled more than \$35 billion.⁵¹

Russian firms, still suffering under the weight of Soviet-era laws and regulations, were unable to earn enough to pay taxes. The government's revenues were falling--at times as much as 50% below budgeted tax receipts. The decline in tax collections was exacerbated by the notoriously inefficient Russian tax system, as well as by corruption among tax authorities and sweetheart deals that granted tax leniency to select enterprises, such as the gas monopoly Gazprom.

The Clinton-Yeltsin and Gore-Chernomyrdin response to reduced tax collections--a symptom of the government's failure to building anything like a workable free enterprise system--was more government borrowing. IMF and World Bank debt would be used as a means of balancing the Russian central government's annual budgets, plugging the gap between the government's growing expenses and its rapidly declining revenues.

The heavy reliance on borrowing to finance budget shortfalls caused investors to demand an increasingly large premium to hold Russian debt. To attract investors, the government offered ever-higher interest rates--at times approaching 250%. The process was unsustainable.⁵²

GKO's and the Russian Debt Pyramid

Russia's rapidly inflating short-term debt was an important factor in the August 1998 collapse. Facing budgetary pressures caused in part by already high debt service payments and expensive reelection campaign promises, the Russian government turned to short-term borrowing through ruble-denominated government bonds, known by their Russian acronym GKO's (Gosudarstvennykh Kratkosrochnykh Obligatsii, "State Short-Term Obligations"). Rather than solving Russia's debt problem, GKO's only delayed and intensified the final reckoning.

Russia's failure to develop a market economy and the concomitant poor investment climate meant the government had to pay investors a steep premium to sell them the GKO risk. Interest rates, which had averaged 26% in 1997, reached triple digits in July.⁵³ This ensured that the government could not meet

its obligations when GKO's came due without issuing more GKO's: "The GKO pyramid was by then a full-blown Ponzi scheme, with new bonds being issued to pay the interest on old bonds."⁵⁴ GKO debt exploded during the spring and summer of 1998, and by then some 30% of Russian budgetary outlays was devoted to debt service.⁵⁵

Russian and foreign investors earned enormous returns in the so-called "GKO casino." But investors were eager to convert their ruble profits into dollars and other stable currencies. Such conversions exerted more downward pressure on the already battered ruble, and raised the cost to the Russian Central Bank, which was trying to prop it up.

A considerable portion of the International Monetary Fund's \$4.8 billion July 1998 rescue package was spent to prop up the ruble in the days before the collapse. Predictably, toward the end, only well-connected Russian and foreign investors were able to convert their rubles, a fact acknowledged by Treasury Secretary Rubin.⁵⁶

The Clinton administration made consistent efforts to downplay the magnitude of Russia's economic crisis before the collapse. In late May 1998, for example, on the very day Russia's Central Bank tripled key refinancing rates to 150%, State Department spokesman James Rubin went out of his way to call the Russian government's economic team "fully capable," while then-Treasury Secretary Rubin blandly stated that "the Russian government is taking steps to deal with the situation."⁵⁷

When asked what the administration knew about GKO's in the summer of 1998, Lawrence Summers, now Treasury Secretary, told the Speaker's Advisory Group on Russia that the administration was aware of the GKO market, knew the interest rates, and regarded them as symptomatic of an untenable fiscal situation.⁵⁸ Nonetheless, the Clinton administration viewed maintenance of the GKO Ponzi scheme as insufficient cause to turn off the cash spigot.

In light of the administration's previous enthusiasm for IMF lending to Russia, many investors may have believed that the Gore-Talbott-Summers troika would squeeze new loans out of the IMF to insure that Russia's economy did not fail and that their investments were protected. Ultimately, this perspective proved only partially correct: the IMF was persuaded to issue new credits, but the Russian economy would collapse nonetheless.

The Clinton Troika Pushes to Double IMF Lending to Russia

In mid-1998, just two months before Russia's economic collapse, IMF Managing Director Michel Camdessus insisted that investors should not worry about Russia: "Contrary to what markets and commentators are imagining, this is not a crisis," he said. John Odling-Smee, head of the IMF's Russia department, predicted that "large-scale additional financial resources ... will fundamentally improve the financial situation of the Russian government."⁵⁹

Similarly, the Clinton troika held the view that more IMF lending could fix whatever ailed Russia. White House spokesman Mike McCurry bravely spun in July 1998 that the "program of Russian policy commitments and international financial support can provide a sound basis for increased stability and confidence."⁶⁰ According to the *New York Times*, Summers and Under Secretary of the Treasury for International Affairs David Lipton pressed the IMF to "double the amount of money it was willing to lend to Russia,"⁶¹ even though this would dangerously deplete the IMF's resources.⁶²



NOT A PRAYER: President Boris Yeltsin looks for help from above during a meeting with regional leaders on the 1998 financial crisis in the Kremlin in Moscow, June 5, 1998—just months before Russia's economic collapse. The Yeltsin-Clinton prescription for the crisis was for Russians to pay more taxes, ignoring the fundamental cause of Russia's increasingly poor fiscal condition: its failure to establish the basic elements of a free enterprise economy.
AP Photo/Pool

The *Times* reported that the Summers-Lipton diagnosis was that still more lending was required because Russia might "catch the Asian flu."⁶³ Such emphasis on external factors revealed the Clinton administration's inattention to the inherent problems in Russia's economy. By turning a blind eye to Russia's failure to put in place the building blocks of a free enterprise economy, and instead pressuring the IMF to put the Russian government still deeper into debt, the troika's policies exacerbated the depth of the coming crisis.

In Washington, over Memorial Day weekend, Summers, Lipton, and Talbott met with Chubais, who had been appointed as Special Emissary to the West after his dismissal from the Russian government. At backyard barbecues, they discussed terms and conditions. Afterward, they started pushing publicly for an agreement between the IMF and Moscow. A few days later, Clinton voiced support for the scheme and began lobbying Congress for an additional \$18 billion U.S. contribution to the IMF so that the Fund would have enough money to cover the sizable new lending they had in mind.⁶⁴

In fact, the economic situation in Russia was rapidly deteriorating. It was becoming clear that even a large-scale international financial package could not stave off the Russian free-fall. Angry miners began demonstrating in Moscow to protest wage arrears. The sale of the state-owned oil company Rosneft, projected to net the government \$1.6 billion, was cancelled for the second time because of the probability of fire-sale bidding.⁶⁵ Interest rates on Russian debt were soaring. The Russian treasury market was showing signs of collapse: a Russian treasury bill auction failed to attract enough interested investors, despite sky-high interest rates. By July 1998, Russia's foreign currency reserves had fallen to \$12 billion, down more than \$3 billion from the month before. Though the handwriting was on the wall, the Clinton administration and the IMF chose to proceed with the loan.

The IMF Bails Out 'Insiders' Before the Ship Sinks

On July 16, 1998, the Russian government and the International Monetary Fund, joined by the World Bank and Japan, agreed on terms for the largest-ever infusion of cash into the central government of Russia: \$17.1 billion. On top of this borrowing, Russia anticipated another \$5.5 billion in international

lending from prior agreements, for a grand total of \$22.6 billion.

The 1998 IMF debt agreement was premised on commitments from the Russian government to implement a "comprehensive reform program," including a dramatic reduction of the budget deficit--this time to 2.8% of GDP from its then current 5.8%.⁶⁶ But the IMF funds were not conditioned on any legal commitment to the IMF, or even actual Russian performance.⁶⁷

The IMF board approved the deal on July 20, 1998, even though the Duma balked at some of the reform measures that Chubais had promised. Disbursements began that day with a first installment of \$4.8 billion--\$800 million less than had been envisaged earlier, reflecting concern over the Duma's vote. ⁶⁸

The initial reaction to the IMF loan agreement was euphoric. The Russian stock market, after months of free fall, recorded a 17% rise.⁶⁹ This boost was short-lived, however. By the end of July, despite the infusion of billions of dollars in IMF funds, the market resumed its plunge.

On July 27, the market dropped 9% in one day.⁷⁰ Yields on the Russian government's short-term debt hovered around 60%.⁷¹ In a desperate attempt to raise revenue, the Russian government prepared to sell a 5% interest in Gazprom, despite the unfavorable market conditions.⁷²

This was precisely the reverse of what the Clinton administration and the IMF had hoped for. Instead of rewarding the Russian government for its temporarily cash-rich position, the market hammered it because it was now deeply mired in debt, with no discernable means of repayment.

The huge July 1998 IMF loan agreement did, however, succeed in one important respect. Because it was temporarily flush in IMF money, the Russian central bank was able to accommodate well-connected investors, foreign and domestic, who had discerned the handwriting on the wall and decided to convert their ruble holdings into hard currency. Thus, the IMF encouraged and paid for the capital flight that marked the final days before the August collapse.

Throughout the brief period between the 1998 IMF loan and Russia's final economic collapse, the Russian government bravely insisted that the Ponzi scheme of financing its budget with ever higher-yielding notes would continue forever. On July 27, Nemtsov declared, "Devaluation will happen with other governments, not ours."⁷³ The Clinton administration was equally willing to mislead the investing public. On July 28, Treasury Secretary Rubin wrote to then-House Speaker Newt Gingrich that the Russian government could now be expected to "finally take the myriad steps needed to put its finances on a sustainable path."⁷⁴ That same day, Stanley Fischer, the IMF's Deputy Managing Director, sounded an equally optimistic note: "Don't underestimate what's happened," he said of the IMF action. "Interest rates are down The pressure is off the ruble."⁷⁵

As they had for nearly five years, the small clique of Clinton administration officials had miscalculated the effects of their policies and closed their eyes to the consequences. Their tight circle excluded opposing points of view and became a self-reinforcing mechanism for pursuing failed strategies. Gore was too willing to believe Chernomyrdin and Kirienko; Rubin, Summers, and Talbott were too willing to believe Chubais. Convinced that the worst was over and a turnaround was in sight, despite mounting evidence to the contrary, the Clinton troika was among the last to realize that it would all come to a bitter end on August 17.

The Final Days

The Russian stock market continued its plunge in August 1998: on August 19 alone, trading was suspended twice because of drops of more than 10%.⁷⁶

Demand for Russia's debt declined dramatically, even as yields soared above 200%.⁷⁷ Russian banks began calling on each other for loans--reflecting, in the words of Sergei Aleksashenko, First Deputy Chief of the Russian Central Bank, "the crisis of liquidity."⁷⁸ Some banks stopped allowing panicked Russians and foreigners to buy dollars with rubles.

In Washington, President Clinton was huddling with his advisers over what to do about his summit with Yeltsin, scheduled for September. On the one hand, the economic clouds were ominous; on the other hand, Yeltsin had reassured Clinton on August 14 that there would be no devaluation.⁷⁹

Scrambling to avoid a meeting in the midst of a financial crisis, the White House dispatched Treasury's Lipton to Moscow "to ensure that the show stays on the road for the next three weeks at least," according to an administration source quoted in the *Economist*.⁸⁰ That would be just long enough to get through Clinton's visit and avoid embarrassment. Sidestepping Russia's underlying problems, it would seem, was the hallmark of administration policy in the final days before Russia's economic collapse.



CHILDREN OF RUSSIA: Two children receive free soup from the Salvation Army at a Moscow railway terminal in 1998. AP Photo/Mikhail Metzel

Over the weekend of August 15-16, a small group of Russian government officials and their advisers met to consider the situation and their options. Another bailout from the IMF or the United States was deemed unlikely to win approval in Congress and, in any event, would arrive too late. Their options came down to seeking a rescheduling of the payment of billions in foreign government and private debts or a devaluation of the ruble. Either one would be tantamount to default, a declaration of Russian bankruptcy.

The following Monday, August 17, the Russian government announced a devaluation of the ruble *and* a

90-day moratorium on repayment of \$40 billion in corporate and bank debt to foreign creditors--coupled with unilateral "restructuring" of domestic debt scheduled to mature in 1999.⁸¹ The *Wall Street Journal* reported the next day, "Facing a choice between two economic evils to fight its financial woes, Russia chose both."⁸²

The Clinton strategy of massive lending to the central government as a substitute for the construction of a free enterprise system in Russia had proved an error of historic proportions, and the administration immediately attempted to build a wall between their policy and its consequences. "It was the Russians' choice," said one administration official.⁸³

Few in Russia accepted this version of events. Many Russians, not surprisingly, blamed the West, the IMF, and the United States for intentionally leading Russia down the path of ruin.⁸⁴ The heavy-handed involvement of Clinton administration officials in Russian economic policy had made America an easy scapegoat for millions of disgruntled Russians.

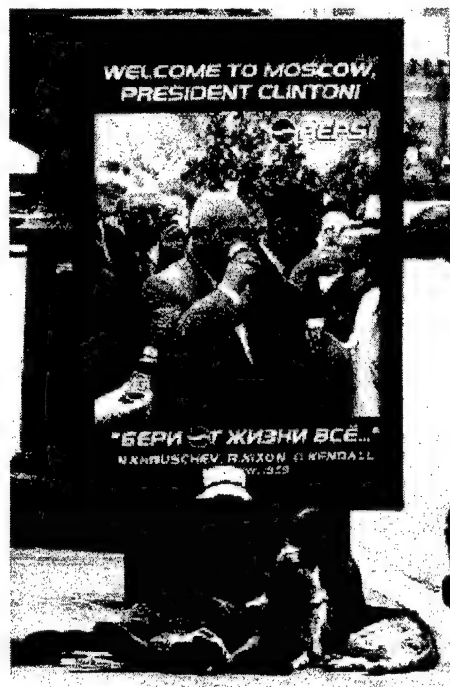
What made devaluation and default an especially bitter pill for the Russian people was the knowledge that many well-connected insiders had escaped its consequences by converting their rubles into hard currency and thereby avoided the consequences of devaluation. A number of the oligarchs, Duma deputies, and other officials had anticipated the devaluation or been tipped off to it and converted their ruble holdings into dollars before the foreign currency window was slammed shut, and then sent their money overseas before the August 17 devaluation. Given the scarcity of hard currency in Russia at the time, there is no question that the IMF loan proceeds were used to convert rubles to dollars, Deutschmarks, and pounds sterling in this way. Treasury Secretary Rubin, testifying before a House Appropriations Committee subcommittee in March 1999, acknowledged that much of the final \$4.8 billion IMF loan distributed to Russia in the summer of 1998 "may have been siphoned off improperly."⁸⁵

Following the devaluation, widespread speculation in Russia that IMF lending was being used to bail out insiders was fueled by the Russian Central Bank's decision to single out a dozen favored banks for government credits to reestablish their liquidity. The banks included those held by several powerful oligarchs. To all appearances, while the average Russian was left to fend for himself, the well-connected oligarch was being rescued by the Central Bank, by the IMF, and ultimately, by U.S. taxpayers.

Dmitri Vasiliev, former chairman of Russia's Federal Security Commission, confirmed that IMF loans were used to bail out insiders: "The [IMF] money is all spent," he told the *Los Angeles Times* a month after the devaluation. "It went to foreigners and Russian speculators, including the Central Bank. They got payments for their GKO's, converted the rubles into cheap dollars, and took the money out of the country."⁸⁶

As Clinton was preparing for his September 1998 trip to Moscow, Prime Minister Kirienko and his team were fired. Not much earlier, one senior Clinton administration official had called the Kirienko government "the most cohesive and most united in its commitment to reform ... Russia has had in the last five years."⁸⁷ Kirienko's team lasted barely five months, and the Clinton administration was again without a policy and an interlocutor in Moscow.

For a brief moment, Gore was heartened that his former partner, Viktor Chernomyrdin, might be making his way back. However, Chernomyrdin's comeback was to be short-lived: the Duma refused to confirm him. By the fall of 1998, the Clinton administration had no "strategic partners" in the Russian government, and its policy toward Russia had fallen into disarray.



THE CLINTON GENERATION: A Muscovite begs with his dogs next to a Pepsi advertisement, featuring Soviet leader Nikita Khrushchev and President Nixon in 1959, in downtown Moscow, June 3, 2000, just before Clinton arrived in Moscow for a summit with President Putin. Clinton's reception, not surprisingly after the collapse of Russia's economy, was icy cold. AP Photo/Mikhail Metzel

The Continuing Fallout

The effects of the complete collapse of the Russian economy in August 1998 were profound. They are still being felt today.

Wage and pension arrears have declined significantly, but workers' real income is still only 77% of what it was before August 1998. The nominal increase in ruble-denominated wages has not kept pace with the increase in prices. Personal consumption, as a result, dropped 5% in 1999, while retail sales were down 8%. Those Russians living below the official poverty level still total more than 35% of the population. The official unemployment rate remains above 11%.⁸⁸

Servicing Russia's foreign debt, now up to \$150 billion, is draining resources from the economy.⁸⁹

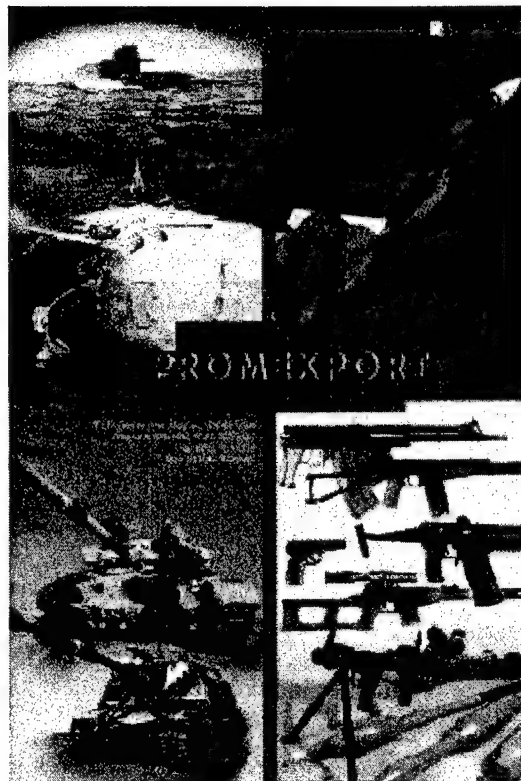
Russia's modest economic "turnaround," such as it is, is almost wholly a windfall result of higher world oil prices, and Russia remains unprepared to capitalize on this opportunity. Gazprom, the giant gas monopoly, reported in May 2000 that its output would be down this year because of a shortage of funds to invest in new fields.⁹⁰ More generally, the continued dependence of Russia's economy on basic Soviet-era industries such as the export of arms and natural resources--and one major export in particular, oil--underscores the failure to construct the basics of a free enterprise economy.

Nearly a decade after the end of Communism, the essential task still remains to be undertaken: building a free enterprise economy on the ashes of a centralized state-run system. But whereas in 1992 there was public support to see the job through, years of failed economic policy masquerading as "reform," a crushing burden of debt, and the discrediting of the United States in the eyes of the Russian people have

made that task far more difficult than anyone could then have imagined.

CHAPTER 9

WEAPONS PROLIFERATION FEEDS A CORRUPT AND CASH-STARVED SYSTEM



ARMS FOR SALE: One of the few success stories of the Soviet Union was its development of a powerful military-industrial complex, which survived the collapse because of its ability to continue to sell weapons and because its Russian workers were among the most highly-trained in the nation. In the absence of market development, Russia has depended on international arms sales to raise much-needed cash. Moscow has shown a willingness to sell some of its most advanced weapon systems currently in mass production. A number of these weapons are specifically designed to destroy U.S. systems. Russia's customers include many nations that threaten U.S. interests. Russia's urgent need for hard currency has resulted in weapons proliferation that may even run counter to Russia's long-term strategic interests.

[O]n proliferation, the picture that I drew last year has become even more stark and worrisome. The missile threat to the United States from states other than Russia or China is steadily emerging. The threat to U.S. interests and forces overseas is here and now.

George Tenet, Director of Central Intelligence, February 2, 2000

The failure of the Clinton administration's economic strategy for Russia has had profound implications for Russian proliferation of weapons and technology, and therefore for America's supreme national interests.

Between 1992 and 1999, the Russian economy contracted 25%. Currently, 11.5% of the 73.6 million working-age citizens are officially unemployed, compared with only 4.8% in 1992. Rampant corruption has slashed government revenues and diverted government expenditures. The complete collapse of Russia's economy in 1998 saw industrial and agricultural output drop sharply. Investment in Russia continues to suffer as capital flight cripples the private sector.

Russia's failure to create a working free enterprise system has stalled conversion of the hypertrophic military sector of the economy.¹ It has also ensured that, just as in Soviet days, virtually the only industry in which Russia enjoys a true comparative advantage in global markets is military hardware, weaponry, and related technologies.

Russia's economic failure has created urgent economic incentives for its military-industrial complex, individual military units, research facilities, and design bureaus, as well as for the individual officers, soldiers, bureaucrats, and scientists who comprise these institutions, to sell even extraordinarily sensitive weapons and technology.

Over time, official Russian policy has conformed to these exigencies. Aided by the collapse of American popularity in Russia and the discrediting of pro-American politicians as the Clinton administration economic program failed, militantly anti-American elements in the Russian foreign and security-policy elites have succeeded in dramatically recasting mainstream Russian views of foreign policy over the last eight years.² Under the rubric of "strengthening multipolarity," the avowed purpose of the new Russian consensus on foreign policy and national security is to increase the strength of global forces arrayed against the United States.

This consensus helps allay any concerns that Russian officials, scientists, and businessmen might have about transferring weapons or military technology to countries such as Iran, Iraq, North Korea, Libya, and the People's Republic of China. When Russia's national interest is understood to be strengthened by weakening the United States, the Russian military-industrial complex can do well by doing good.

'Islands of Excellence': The Paradox of Russia's Military

The August 2000 sinking of the *Kursk*, Russia's most modern submarine, during the Russian Northern Fleet's largest exercises in a decade has highlighted the paradoxical nature of the Russian military. It is at once sophisticated and in disrepair. The overall poor conditions in the Russian military--symptoms of the cash-starved Russian economy--are conducive to both licit and illicit weapons proliferation for hard currency. At the same time, the maintenance of technological "islands of excellence" in the midst of generally non-competitive force structures insures that Russia has ample weapons systems and technology to share with willing arms buyers.

These basic conditions for weapons proliferation are further exacerbated by the "systemic corruption and criminality that is especially evident at the higher levels of the military and civilian leadership in

Russia." More than 100 generals and admirals, a deputy minister of defense, and two other top officials of the Ministry of Defense were under investigation for corruption and embezzlement as of 1997.³ During the brutal war in Chechnya both officers and enlisted men have sold weapons and material to the Chechens fighting against them; the civilian leadership of the military establishment, including then-First Deputy Prime Minister Oleg Soskovets, have also been accused of profiting from the conflict.⁴

Without question, Russia's military "islands of excellence" exist in troubled waters. Russia has dramatically reduced its military spending from Soviet levels, starting with the 80% cut in procurement ordered by Yegor Gaidar in 1992. A recent illustration of the military's cash shortage is the June 2000 report that the local electric company threatened to cut off power to a strategic missile base in southern Siberia because of \$180,000 in unpaid bills.⁵ The cutoff was avoided when the base's elite commandos, whose regular mission is to protect the giant SS-18 intercontinental ballistic missiles there, seized four of the electric company's substations.

Russia's soldiers, whose lifestyle has always been spartan, now suffer from an unprecedented combination of low pay, poor training, and terrible living conditions:

[T]he Russian military has faced problems feeding its own troops. Sailors have starved to death, forces stationed in the far north have been gradually withdrawn, and those stationed in Russia proper have often been told to pick mushrooms or berries to supplement their diets. ... The problem was brought home even more clearly in March 1999 when a young soldier armed with an automatic weapon broke into a food store. When he was captured, the soldier confessed that he "was really hungry."⁶

It is currently estimated that as many as 1,000 Russian conscripts a year commit suicide.⁷

These poor conditions, in time, have bred further problems. The State Department reported in 1998 that the decline in the military's living standards "continues to contribute to the increase in crime (particularly theft) and corruption in the armed forces."⁸

Since 1996, communications with operational nuclear weapons units have often been disrupted because thieves steal the copper and other metals from wires that linked these units to their command centers and sell them for scrap. And as the *Kursk* incident has shown, corruption, mismanagement, and the problems in morale, training, and recruitment that they engender can compromise the effectiveness of even the most modern systems.

On February 25, 1997, shortly before his dismissal, then-Defense Minister Igor Rodionov stated, "What kind of Defense Minister am I? I am the Minister of Defense of a disintegrating army and a dying fleet."⁹

General-purpose forces have been largely neglected. Russia's armed forces procured exactly two combat aircraft in 1995, versus 581 in 1991.¹⁰ Tank procurement has gone from several thousand to several dozen per year.¹¹ According to Russia's Defense Minister Marshal Igor Sergeyev, 54% of Russia's aircraft and 40% of its anti-aircraft systems, helicopters, armored equipment, and artillery need repairs. Seventy percent of the navy's ships need major repairs.¹²

Yet such statistics belie the more complete picture. Irrespective of its official budget, Russia continues to devote significant resources to its military establishment, as demonstrated by its sheer size and infrastructure, as well as expenditures on the war in Chechnya and "peacekeeping" in Moldova,

Tajikistan, and Georgia. And while it is a mere shadow of the Soviet military, even the diminished Russian military of today is formidable compared to the weak forces of the nations on Russia's periphery and of the new NATO states Poland, Hungary, and the Czech Republic. Were Russia to choose to do so, it is capable of threatening the Partnership for Peace countries of the Baltics, Ukraine, and Southeastern Europe, the Caucasus, and Central Asia. And while Russia might not be able to win a conventional war with NATO, it still has the military capability to inflict massive damage on U.S. allies in Europe.

The anomalous Russian pattern is that while the bulk of its military assets are depreciating, it is still successfully targeting certain areas for investment in 21st century weapons technologies. Thus, following the May ratification of the START II Treaty by the Russian Duma, President Putin announced that the treaty's ratification would allow Russia "to channel funds to [the] creation of new armaments"13 These newest armaments will also pose proliferation risks.

The most significant exception to Russia's generally deteriorating military is its nuclear force. Russia's clear pattern to date has been to focus its limited research and procurement funds on nuclear weapons--and, disturbingly, on maintaining nuclear war-fighting capabilities.14

The noted defense analyst Pavel Felgengauer recently wrote that "[f]or the past couple of years ... Russia was building more ICBMs [intercontinental ballistic missiles] than all other world nuclear powers put together, but not buying any new conventional arms."15 As Lt. Gen. Patrick Hughes, Director of the Defense Intelligence Agency, testified in February 1999: "Despite years of economic crisis and decline, and extreme reductions in the Russian defense budget, Moscow has mustered the political will and resources to field and maintain its strategic force. Indicative of this determination, Russia continues to prioritize strategic force elements--in terms of manpower, training, and other resources--and to invest in the future by funding at least one new strategic missile, and numerous strategic command, control, and communications facilities and capabilities."16

Twenty to thirty of the relatively new and capable SS-25 Topol ICBMs and the SS-27 Topol-M ICBMs, currently the most technologically-advanced intercontinental ballistic missile deployed in the world, are being produced each year. Russia is simultaneously retiring larger numbers of older systems, resulting in a smaller but more modern force.17

In 1998 the Yeltsin government ordered the development of Russia's next-generation submarine-launched ballistic missile (SLBM), the Bulava ("Mace"). The Bulava is currently in development and is believed to be based on the SS-27, signifying a Russian attempt to maximize missile production by utilizing the economies of scale from deploying substantially similar missiles on land and at sea. Because the Bulava will not become operational for nearly a decade, Russia has also resumed production of the SLBM currently in service to keep the current ballistic missile submarine fleet fully armed. Russia is also designing a new nuclear-capable theater missile.18

The ratification of START II, which emancipated Russia from the expense of maintaining much of its older forces, also signaled the start of its renovation of the strategic bomber fleet. In addition to developing new long-range bombers, the Russian military is also designing precision munitions to increase their efficacy.19 The new X-101 long-range air-launched cruise missile may be part of what military analyst Felgengauer described as a plan "to make a local nuclear war possible in principle, to enable Russia to deliver 'non-strategic' low-power nuclear strikes to any point in the world, similar to American cruise missiles and 'smart bombs.'"20

Russia's strategic forces are also maintaining a higher level of readiness than the general military:

* In April 2000, the strategic bomber force conducted large-scale military exercises over the Black and Caspian Seas,²¹ the second major exercise in as many years.

* In June 1999, Russia conducted its largest military exercise since the collapse of the Soviet Union, involving some 50,000 troops from five military districts, five naval fleets, and 23 combined task forces.²²

The 1999 exercises, dubbed Zapad 99, marked the first time that American fighters were forced to intercept Russian bombers, two of which had approached within 60 miles of NATO-ally Iceland--well within striking distance of the United States.²³

Russia is also launching new satellites to counter an erosion in its intelligence capabilities that has left it strategically "blind" for some three hours of every day.²⁴

Tactical aviation, and electronic and information warfare, have also continued to receive priority in funding. So has biological weapons research.²⁵ And Russia is expending immense resources on building mammoth underground facilities apparently intended to function as command-and-control headquarters for waging nuclear war at locations including Kosvinski and Yamantau Mountain in the Urals.²⁶

Russia has continued producing nuclear-powered submarines (of which the *Kursk* is an example) as well as diesel submarines for its own armed forces as well as for export. As Rear Admiral Lowell E. Jacoby, the Director of Naval Intelligence, advised Congress in April 1999, "Russia continues to produce a wide range of leading edge undersea warfare technologies for their own use and for export."²⁷

Under construction or development are the *Severodvinsk*, Russia's first true multi-purpose nuclear submarine, and the *Dolgorukiy* nuclear-powered submarine, which in the future will be the mainstay of Russia's sea-based nuclear weaponry.²⁸ Whereas most U.S. defense planning no longer focuses primarily on Russian developments, U.S. submarine acquisition and anti-submarine warfare programs are still driven by Russian activities.²⁹

The long-depressed economic conditions in Russia, miserable pay and living conditions of Russian troops, pervasive corruption in the Russian military and civilian leadership, a desire to fund Russia's still-ambitious and expensive conventional and strategic forces, the marketability of much of Russia's newest military hardware and technology, and a growing hostility to the United States in official Russian foreign and military policy have all combined to provide strong economic incentives for proliferation of weaponry and weapons technology by people and institutions ranging from individual soldiers to the Russian state.

Doomsday Programs: Russia's Weapons of Mass Destruction

When the Soviet Union collapsed in 1991, Russia inherited an immense military-industrial complex, as well as a huge arsenal and military. Much of this complex was devoted to the development of weapons of mass destruction.

The new Russian Federation possessed nearly 1,200 metric tons of enriched uranium and 200 tons of plutonium.³⁰ Although much of this material was kept in the hermetic "nuclear cities" in which Soviet nuclear experts were confined, a significant amount was available outside these isolated outposts. An

estimated 2,500 Russian nuclear scientists with direct knowledge of building nuclear weapons were under-employed or unemployed. Furthermore, these scientists were supported by tens of thousands of specialists who worked outside the nuclear cities but had extensive involvement with the Soviet nuclear industry.³¹

Russia likewise inherited the Soviet chemical weapons program, which encompassed hundreds of facilities employing tens of thousands of scientists and technicians--the largest and most advanced chemical weapons production program in the world. In 1993, Russia declared that it possessed 40,000 metric tons of chemical weapons agents stored at seven depots, and declared that it owned 24 former chemical weapons production facilities.³²

The Soviet biological weapons program that Russia inherited was even larger, employing over 65,000 people. The Soviet Ministry of Defense ran four military microbiological facilities. In addition, research was carried out through a complex of 50 pharmaceutical facilities known as Biopreparat that engaged in the secret development of biological agents.

The decline in Russian military spending and the general failure of Russia's economy under the Clinton administration's tutelage gave this immense military-industrial complex the urgent incentive to sell as much as possible as quickly as possible--often irrespective of the long-term implications for Russia's own security.

At some former research facilities, such as the State Institute of Organic Chemistry and Technology in Moscow, fully half of the scientific personnel had been laid off by the fall of 1995, following President Yeltsin's official termination of the biological weapons program in 1992. Following Yeltsin's action, the Biopreparat complex experienced funding cuts of 30% and personnel cuts of 50%. According to one recent report, many Biopreparat institutes cannot even afford to pay the remaining scientists on staff the meager \$100 a month average salary.³³ Moreover, security controls on Russia's weapons of mass destruction program were deteriorating.

To many in the Russian government who sought ways to overcome the desperate financial challenges facing Russia's government and its population, exporting such hugely valuable contraband seemed to solve several economic problems. It would generate hard currency; it would utilize existing Russian assets; and it would put possibly hundreds of thousands of unemployed Russians back to work. For the many Russian officials increasingly involved in corruption and organized crime, there was yet another benefit: the opportunity for significant personal wealth.

Such sales also had a programmatic and policy dimension, since the funds they generated could help support further weapons development. Such critical elements of the military-industrial complex as aircraft and surface-combatant manufacturing have been left to survive largely by exports. While Russian arms exports have reached as much as \$4.8 billion annually, Russia's armed forces have been authoritatively informed that they will not receive new weapons until 2005, and must manage with existing weapons in the interim.³⁴

Such exports could also serve such foreign policy goals as "building multipolarity" at the expense of the United States, or seeking to build better relations with nations that might otherwise pose problems for Russia, such as Iran. Some Russian commentators even articulated a policy of Russian arms sales to anti-American forces as a means both of providing Russia with hard currency and of assuring that U.S. resources will be consumed in countering the weapons Russia has sold abroad.³⁵

Many Russian weapons-complex employees were vulnerable to the lure of selling expertise and

equipment for hard currency, irrespective of official Russian policy, as Iran and other rogue nations seeking to build WMD programs have seen in Russia's economic misery an opportunity to purchase the highest-quality expertise cheaply.

For all of these reasons, both official and unofficial Russian weapons proliferation has accelerated dramatically since the first years of the Yeltsin and Clinton administrations. In addition to the weapons and technology transfers to the People's Republic of China described in Chapter 11, the most destabilizing manifestations of Russian arms proliferation have been the sale to Iran of technology for ballistic missiles, nuclear weapons, chemical weapons, and biological weapons; assistance to Iraq's ballistic missile program, its chemical weapons program, and its oil smuggling operations; and the sale of conventional arms to Iran, Iraq, Libya, North Korea, and Syria.

Russian Assistance to Iran's Ballistic Missile Program

Following the Iran-Iraq war, Iran sought to improve its missile technology by purchasing No Dong missiles from North Korea, and reportedly provided assistance to North Korea's missile development program in return. After difficulties in acquiring No Dong missiles, however, Iran turned to other countries--including Russia--for assistance in its missile development.³⁶ Iran sought Russian help with guidance systems, engines, advanced materials, electronics, testing equipment, and other systems it could not develop on its own.³⁷

Throughout the 1990s, despite repeated pledges by the Yeltsin government given during summits, Gore-Chernomyrdin Commission meetings, and ministerial-level meetings, Russian private and government entities continued to provide critical technological assistance to Iran's ballistic missile programs.



AIDING IRAN'S MISSILE DEVELOPMENT: An Iranian Shahab-3 missile takes part in a parade in Tehran Sept. 25, 1998, to mark the 18th anniversary of the outbreak of the war with Iraq. The missile, with an 800-mile range, is capable of reaching Israel. President Mohammad Khatami addressed crowds at the parade and said Iran was ready to use force if diplomacy failed to ease the tension with neighboring Afghanistan. Intelligence reports noted that Iran worked with the Russian Space Agency, the Bauman Institute, Rosvooruzhenie, and other Russian firms in developing the missile. AP Photo/Mohammad Sayyad

In 1997, evidence surfaced that three Russian entities, including Rosvoorouzhenie (Russia's State Corporation for Export and Import of Armament and Military Equipment), had signed contracts with Iran's Shahid Hemmat Industrial Group (SHIG), a government agency within Iran's Defense Industries Organization in charge of developing Iran's ballistic missile program, to assist the Iranian missile program by producing, model missiles, software, and a wind tunnel for missile design.

The Russian scientific and production center Inor also collaborated with Iran's SHIG on several contracts for the transfer of Russian raw materials for use in producing missiles. In addition, Inor negotiated to sell Iran high-technology laser equipment, special mirrors, a metal called maraging steel, and tungsten-coated graphite material--all important components in building missiles.³⁸

U.S. intelligence findings were confirmed when on January 29, 1997, the State Department sent a secret cable to the U.S. Embassy in Moscow describing evidence provided by a delegation of Israeli military intelligence officials that Russian agencies were assisting Iran in building its Shahab-3 and Shahab-4 missiles.³⁹ The cable reportedly read as follows:

This is shaping up as a serious problem. While we have not seen or analyzed their raw data, the Israelis seem to have established that:

The Iranians are working on two No Dong derivatives, Shahab-3 (with a 1,250 mm tube, 1,300 to 1,500 kilometer range, and 750 kilogram [re-entry vehicle] RV; and Shahab-4 (larger, more advanced guidance systems, 2,000 kilometer-range and 1,000 kilogram RV).

The Iranians are seeking domestic production.

Iranian defense industry entities have worked with the Bauman Institute in St. Petersburg, with Rosvooruzhenie, the Russian Space Agency, NPO Trud, Polyus, and other Russian firms in: Conducting wind tunnel testing of the nose cone, designing the guidance and propulsion systems and working on a solid-fuel project.

The Israelis have identified [Russian Space Agency Director Yuri] Koptev and Rosvooruzhenie's aerospace director in connection with the project; they have a copy of the \$7 million contract with NPO Trud (which built the Russian lunar space vehicle).

Great Wall Industries (China) is working on telemetry infrastructure; little information.

A prototype may be ready in two to three years.

The Israelis believe the Russians may try to justify the missiles as research devices. They have not identified a Russian-Iranian coordinating channel for missile development, nor implicated any senior figure besides Koptev, possibly suggesting a pattern of freelancing. The Israelis suspect, but have not established, that the total of relevant contracts in Russia may not exceed \$20 million.⁴⁰

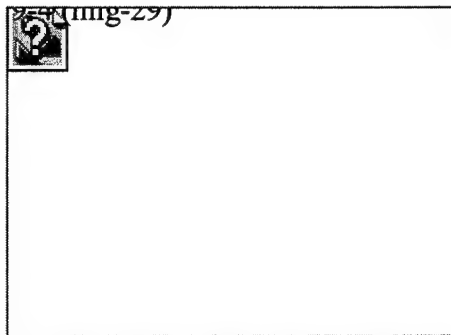
In testimony before the House International Relations Committee in October 1999, proliferation expert Kenneth Timmerman testified that top Clinton administration officials were aware of Russian aid to Iran's missile programs but did little to counter it:

[Deputy Secretary of State Strobe] Talbott's consistent refusal to confront the Russians over their missile technology transfers to Iran illustrates once again a series of opportunities we missed to prevent post-Cold War Russia from going down the dark paths where we encounter her today.

The warnings were visible early on, and they were ignored. Initial information on Russian assistance to the Shahab missile programs in Iran came from Israeli agents in Russia in 1995

and 1996.

The Israelis felt confident enough of their information to present a detailed briefing to Mr. Talbott in Washington in September or October of 1996. According to one of the Israelis who took part in the briefing, whom I interviewed in Tel Aviv the following year, Mr. Talbott told them not to worry: he had the situation with Russia "under control."⁴¹



UNFRIENDLY SKIES: In the fall of 1998, Russian arms export agency Rosvooruzhenie and Iraq completed a deal worth \$160 million in military hardware including upgrades of this MiG-29 fighter. These fighters have engaged NATO pilots over Kosovo and Iraq.

In March 1997, a CIA intelligence report labeled "Secret Specat" reportedly disclosed that then-Iranian President Ali Akbar Hashemi Rafsanjani was pleased with the growing ties between Iran and Russia, and that he expected Iran to benefit from Russia's highly-developed missile program. Iran's president stated that he "consider[ed] obtaining Russian military technology one of Iran's primary foreign policy goals." Rafsanjani added, "Iran had a budgetary reserve of \$10 billion, much of which it is willing to dedicate towards military purchases from Russia," and he directed Iran's embassy in Moscow "to devote resources to fulfilling Iranian weapons requirements through purchases from Russia."⁴²

According to a 1997 report on proliferation, Director of Central Intelligence George Tenet stated:

[In 1997] Russian firms supplied a variety of ballistic missile-related goods and technical know-how to foreign countries during the reporting period. For example, Iran's success in gaining technology and materials from Russian companies, combined with recent indigenous advances, means that Iran could have a medium-range ballistic missile much sooner than otherwise expected.

During 1997, Russia was an important source of dual-use technology for civilian nuclear programs in Iran and India. By its very nature, this technology may be of use in the nuclear weapons programs of these countries.⁴³

Yet the Clinton administration, anxious to present a positive image of Russian-American relations, continued to accept the commitments from Yeltsin and Chernomyrdin during this period--at the Clinton-Yeltsin summit in Helsinki in March 1997, at the June 1997 Clinton-Yeltsin summit in Denver, and at a Gore-Chernomyrdin meeting in 1997--that Russia would halt its missile technology assistance to Iran.⁴⁴

In November 1998, the Russian Duma passed a resolution calling for increased military cooperation with Iran. According to press reports based on conversations with intelligence officials, in late January 1998

the Russian SVR Foreign Intelligence Service and Iran's Ministry of Intelligence and Security coordinated a visit to Moscow by a group of Iranian missile experts. Vyachaslev Trubnikov, the Russian foreign spy chief, informed the Iranians that his agency would continue to work with the Iranians if illegal practices by Iran were stopped. Other reports linked the Russian FSB--the Federal Security Service, successor to the KGB--to covert Iranian intelligence activities in the missile technology area.⁴⁵

Nevertheless, the Clinton administration still refused to adjust U.S. policy to the torrent of information from the U.S. intelligence community and the corroborating evidence from U.S. allies. American policy was based on the assurances from the administration's small circle of official Russian counterparts. Objective intelligence reporting was discounted, while information from Russian sources who clearly stood to be injured by the imposition of sanctions was accepted.

The Clinton administration consistently avoided imposing meaningful sanctions on the export of missile technology to Iran, despite the authority to do so that it possessed under the Arms Export Control Act, the Export Administration Act, the Iran-Iraq Arms Nonproliferation Act of 1992, and the Foreign Assistance Act.

The bipartisan Iran Missile Proliferation Sanctions Act of 1997, which passed the House and Senate with veto-proof majorities, closed many of the loopholes invoked by the Clinton administration to justify its refusal to use sanctions. The Act required suspension of U.S. government assistance to foreign entities (including governmental entities operating as businesses) that assist Iran's ballistic missile program.

President Clinton vetoed the bill on June 23, 1998. One month later Iran tested its Shahab-3 missile--ten years ahead of the U.S. government original Initial Operational Capability (IOC) estimate of one year earlier, and 18 months ahead of the then-recently revised IOC. By mid-1998, the Iranian ballistic missile program was one of the most advanced in the world, due to Russian assistance.

The Commission to Assess the Ballistic Missile Threat to the United States (popularly known as the Rumsfeld Commission) reported to Congress and the president in July 1998 that "[t]he ballistic missile infrastructure in Iran is now more sophisticated than that of North Korea and has benefited from broad essential assistance from Russia."⁴⁶ Many experts believe that the role Russia played in Iran's development has been "crucial"--and that without Russian assistance, it would have taken many more years of research and testing for Iran to test and deploy these missiles.⁴⁷

Under threat of a congressional override of the veto of the Iran Missile Proliferation Act, Clinton issued an executive order on July 28, 1998, utilizing existing law to ban trade, aid, and procurement from foreign entities assisting programs for the production of weapons of mass destruction in Iran or elsewhere. Pursuant to the executive order, the Clinton administration sanctioned seven Russian entities believed to be assisting Iran's Shahab program.⁴⁸

At the time, observers questioned why other entities that had engaged in similar activity were not sanctioned, as well as disputing the efficacy of the "tailored" sanctions that the administration claimed to be imposing. The executive order allowed the President to reduce or end aid to research and manufacturing enterprises, but most of the sanctioned firms did not receive any such U.S. aid, or were associated with the Russian government. And although the executive order also barred these entities from exporting goods to the United States, this sanction was largely meaningless since there was no U.S. market for their products and the trade in question was in information and technology rather than equipment. Moreover, the executive order did nothing to address Russia's export-control system, which even National Security Advisor Sandy Berger said was necessary when he announced the sanctions.

As a result, the executive order and attendant sanctions failed to deter Russian proliferation. An unclassified CIA report issued on February 2, 2000, stated that as late as June 1999 Russian entities "continued to supply a variety of ballistic missile-related goods and technical know-how to Iran." Moreover, Iran could already deploy a "limited number of the Shahab-3 prototype missiles in an operational mode during a perceived crisis situation."⁴⁹

In testimony before the Senate Intelligence Committee in February 2000, Director of Central Intelligence George Tenet testified that Iran would "probably" soon possess a ballistic missile capable of reaching the United States. The impact of Russian assistance was clear: only a year earlier, Tenet had testified that it would take "many years" for Iran to develop a missile capable of reaching the United States.

On March 1, 2000, Congress passed the Iran Missile Nonproliferation Act of 2000, which authorizes restrictions on U.S. aid to and trade with foreign entities that assist Iran's programs for the production of weapons of mass destruction. This Act includes a provision conditioning U.S. "extraordinary payments" to the Russian Space Agency for participation in the International Space Station on the President's certification that the Russian Space Agency has ended assistance to Iran's missile development programs.

The Act thus puts teeth into the administration's professed linkage of space and nonproliferation policy, which at the time of enactment had yet to materialize in fact. If enforced by the Clinton administration, the provision will lead in the near term to the withholding of \$20-25 million in extraordinary payments to Russia, an amount that could rise to as much as several hundred million dollars more in future years.⁵⁰

The Clinton administration's willful blindness to Russian missile proliferation to Iran has already done immense damage, however. The extensive Russian assistance has allowed Iran to improve significantly its ballistic missile capability. Iran's Shahab missile series is modeled on the Russian SS-4. The Shahab-3 ("Meteor") medium-range ballistic missile, which is based on North Korea's No Dong missile, was reportedly redesigned and improved by Russian experts. Its 800 to 900-mile range and 1,650-lb. payload give Iran the ability to threaten areas beyond the Middle East. Iran is close to perfecting the Shahab-4 missile, with a 1,200-mile range and a 2,200-lb. payload.⁵¹ And with Russian assistance Iran is now building a 2,600-mile range "Kosar" missile, based on a Soviet-era SS-5 missile engine;⁵² this missile could ultimately form the basis for an Iranian intercontinental ballistic missile.⁵³

Each of these missiles far exceeds the 180-mile range and 1,100-lb. payload limits imposed by the Missile Technology Control Regime, of which Russia is a member.⁵⁴

Russian Assistance to Iran's Nuclear Program

Russia also has ignored the Clinton administration's ineffectual objections to its plans to build nuclear reactors in Iran. Both the Clinton administration and outside experts fear that Iran will use the civilian reactor program as a cover for a secret nuclear weapons program.

In January 1995, Russia announced an \$800 million contract with Iran to complete a nuclear power facility at Bushehr. The nuclear plant was begun by Siemens during the 1970s, but abandoned after Iran's 1979 revolution. This 1,000 megawatt light-water reactor, which is now very nearly complete, is capable of producing material for nuclear weapons.⁵⁵ The Bushehr contract also calls for Russia to deliver

nuclear fuel for Bushehr's reactors. 56 Approximately 1,000 Russian specialists are currently working at Bushehr.



DANGER IN SMALL PACKAGES: Defense Secretary William Cohen explains to the nation the destructive power of even small quantities of biological weapons, Nov. 16, 1997. An amount of anthrax equal to this bag of sugar would kill half of the city of Washington. Russia's expertise in biological weapons is a lure for rogue regimes including Saddam Hussein's Iraq. AP Photo/This Week, Terry Ashe

Russian Atomic Energy Minister Yevgeny Adamov announced in April 2000 that Russia had agreed to build up to three additional 1,000 megawatt nuclear reactors in Iran.

In addition to constructing reactors and delivering nuclear fuel, Russia is providing Iranian personnel with technical know-how. Beginning in early September 1999, more than 300 Iranian specialists commenced training at Russia's Balakovo nuclear power station.

Moreover, although Russia argues that the Bushehr nuclear facility in Iran will be subject to oversight by the International Atomic Energy Agency (IAEA), the Bushehr project will immerse Iranian personnel in nuclear technology, and provide extensive training and technological support from Russian nuclear experts--providing both massive transfers of information and technology and indispensable cover for pursuing nuclear weapons activities. Neither concern is addressed by IAEA oversight.

U.S. officials believe Iran is attempting to acquire a nuclear weapons capability by purchasing nuclear weapons-related material and using nuclear assistance from Russia and others to expand its expertise. The *New York Times* reported on January 17, 2000, that the Central Intelligence Agency had reason to believe Iran had purchased critical technology advancing Iran's nuclear program further than previously thought.⁵⁷ In August 2000, the CIA confirmed this assessment in an unclassified report to Congress, stating:

The Russian government's commitment, willingness, and ability to curb proliferation-related transfers remain uncertain. ... Russian businesses continue to be major suppliers of WMD [weapons of mass destruction] equipment, materials, and technology to Iran. Specifically, Russia continues to provide Iran with nuclear technology that could be applied to Iran's weapons program.⁵⁸

But the Clinton administration has failed to move effectively to end this Russian assistance. Moreover, congressional attempts to influence Russian behavior by reducing U.S. bilateral aid to the Russian central government (while maintaining aid in support of grass-roots reform in Russia) have been undercut by continued unconditional administration support for aid to Russia through the International

Monetary Fund, the World Bank, and other multilateral institutions.

Iran is seeking to acquire Russian assistance in building other weapons of mass destruction as well. In December 1998, the *New York Times* reported that high-ranking Iranian officials were aggressively pursuing biological and chemical expertise in Russia. In interviews conducted with numerous former biological weapons experts in Russia and Kazakhstan, more than a dozen stated that they had been approached by Iranian nationals and offered as much as \$5,000 a month (many times more than many Russian scientists make in a year) for information relating to biological weapons. Two weapons experts claimed they had been asked specifically to assist Iran in building biological weapons.⁵⁹

The Russian scientists who had been approached noted that the Iranians showed particular interest in learning about or acquiring microbes that can be used militarily to destroy or protect crops and genetic engineering techniques to create highly-resistant germs.

Russian Assistance to Iraq

According to public reports in 1999, Russia has sold valuable missile technology to Iraq in violation of the United Nations embargo. With the end of the Gulf War, the U.N. Security Council voted to disarm Iraq of most of its ballistic missile capability. U.N. Security Council Resolution 687 ordered the destruction of all Iraqi ballistic missiles with a range greater than 150 kilometers. Furthermore, an embargo was placed on all sales of ballistic missile technology to Iraq by U.N. member states.

The 1999 reports specifically identified three Russian former state-owned Soviet trading companies--Techmashimport, Vneshtekhnika and Mashinoimportinvest--as having sold Iraq components for the manufacture of surface-to-surface missiles; navigation equipment for fighters; and anti-aircraft missiles, among other items.⁶⁰ In addition, Russia was reported to have sold Iraq \$160 million worth of military hardware, including upgrades of MiG-29 fighters and air defense systems, in the fall of 1998.⁶¹

Three years earlier, in December 1995, Jordan reported seizing 115 Russian-made missile guidance components allegedly bound for Iraq. The United Nations Special Commission on Iraq (UNSCOM) later reported that Iraq had in fact procured missile components since 1991, in violation of sanctions, and that it had covertly developed and tested prohibited missiles. That same month, UNSCOM retrieved from Iraq's Tigris River prohibited missile guidance systems (accelerometers and gyroscopes) taken from modern Russian SS-N-18 submarine-launched ballistic missiles with intercontinental range. ⁶² The degree to which these transfers were state-sanctioned or were attributable to Russian organized crime or corruption is unclear, since the Clinton administration never adequately pressed the Russian government for an explanation or adequately investigated the case.

In 1995, UNSCOM inspectors also uncovered evidence that Russia had agreed to sell Iraq biological weapons fermentation equipment. Experts believe the equipment, including a 5,000 liter vessel, was destined for Iraq's Al Hakim facility, the main biological warfare facility of Iraq, which was subsequently destroyed by U.N. investigators in June 1996.⁶³

The uncertainty of Russian intentions and the inadequacy of its controls over proliferation is illustrated by the case of General Anatoly Kuntsevich, who after leading the program to circumvent Soviet commitments under the Chemical Weapons Convention was appointed by Yeltsin to head the Russian committee charged with dismantling the Soviet biological and chemical weapons complex.⁶⁴ On April

7, 1994, Yeltsin fired General Kuntsevich after it was disclosed that he had been caught attempting to sell five tons of VX nerve gas components to Syrian agents presumably acting on behalf of Iraq. All of the chemical VX precursors to be sold in the transaction were stolen from Russian military facilities. Furthermore, Kuntsevich allegedly sold another 1,760 pounds of chemicals to unnamed buyers from the Middle East.⁶⁵

Similarly, on February 2, 2000, U.S. patrol ships leading the Multinational Interdiction Force that enforces the United Nations' embargo against Iraq boarded and diverted a Russian oil tanker in the Persian Gulf. It was found to be smuggling Iraqi oil. The Clinton administration, once again anxious to avoid confronting Russia, neither sanctioned Russia nor even threatened diminution of U.S. financial support. Instead, the Iraqi naval official on board the tanker was freed; the oil was diverted to Oman and auctioned off; and the tanker was returned to Russia.

Two months later, in early April 2000, another Russian tanker was found to be carrying Iraqi oil mixed with Iranian oil. The Clinton administration merely issued a "warning" that future such incidents would result in the seizure of the cargo. Royal Dutch/Shell, which chartered the tanker, agreed to pay the U.N. \$2 million as a fine, but was allowed to retain the cargo. No sanctions against Russia were even hinted at.

Russian Exports of Conventional Arms

The continuing failure of the Russian economy has created a nearly irresistible attraction to the hard capital generated by the export of advanced conventional weapons systems. Since the collapse of Russia's economy in 1998, Russian earnings based upon the foreign sales of arms have increased by 58.3%, from \$2.8 billion to \$4.8 billion.⁶⁶ And Russia is seeking to expand its shipments to new customers in markets such as Southeast Asia and Latin America.⁶⁷

Since the fall of the Soviet Union, the international sale of Russian arms has been conducted through three state-run organizations that are authorized to export Russian weapon systems abroad: Rosvooruzhenie, which sells new weapons; Promexport, which sells previously used weapons; and Rossiiskiy Tekhnologii, which deals with exporting technical know-how.⁶⁸ Of the three arms-exporting organizations, Rosvooruzhenie is the dominant member of the troika.⁶⁹ In 1999, Rosvooruzhenie was responsible for 80% of Russian arms sales.⁷⁰

Through the development of such new markets for its weaponry and the continued maintenance of its older markets, Russian officials predict annual arms sales of over \$5 billion in the near future--a more than 25% increase from the fiscal 2000 projection, and a more than 75% increase from fiscal 1998.⁷¹

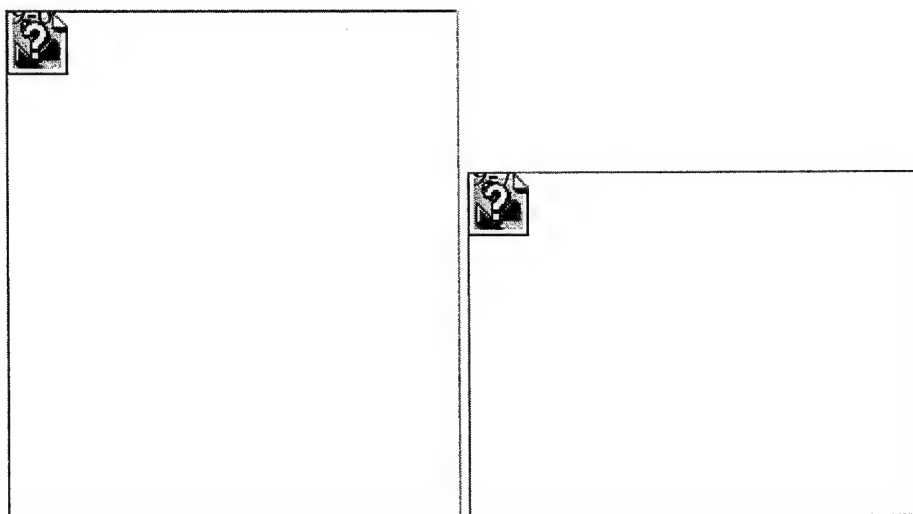
Russia, like the United States, France, and other countries, should be expected to compete vigorously in the international arms market. Russia's sales cause concern, however, because of the sophistication of the weaponry involved and the nature of many of the customers. Moscow has shown a willingness to sell some of its most advanced weapon systems currently in mass production. Rosvooruzhenie has sold--or is in the process of negotiating contracts for the sale of--such weapons systems as:

- * Su-27 air-superiority fighters

- * Su-30 multi-purpose fighters

- * MiG-29SMT fighter-bombers
- * MiG-31 interceptors
- * Mi-17/171 transport helicopters
- * Vympel R-77/RVV-AE medium range air-to-air missiles
- * Igla-1 man-portable surface-to-air missile launchers
- * 3M82 Moskit surface-to-surface anti-ship missiles (designed solely to counter the U.S. Navy's AEGIS system)
- * Kh-35 Uran surface-to-surface anti-ship missiles
- * T-90 main-battle tanks

In addition, Russia is exporting a multitude of other weapon systems, ranging from diesel attack submarines to infantry-borne assault weapons. A number of these weapons are specifically designed to destroy U.S. systems. In other instances--such as sales to both North and South Korea, and to both India and the People's Republic of China--Russian exports effectively escalate ongoing arms races and are destabilizing. Sales to Latin America (including sales of advanced aircraft to rival governments with disputed borders) have similar effects.



AIR EXPORTS: Russia sold 50 Su-27 air-superiority fighter jets (left), 60 more advanced Su-30 MKK jets (right), and the technology to produce unlimited quantities of both, to the People's Republic of China.

But it is the willingness of Russian officials to export advanced weapons to such "countries of concern" as Iran, Iraq, Libya, North Korea, and Syria that is most troubling.⁷² (The Clinton administration's recent decision to substitute the euphemism "countries of concern" for the accepted term "rogue states" is itself a telling example of a penchant for elevating rhetoric over substance.) During the Cold War, these nations were aligned with the Soviet Union, and large parts of their military arsenals are of Soviet origin.

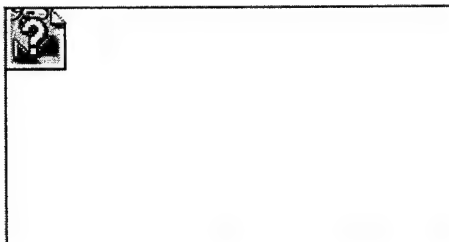
The 1992 decision by the Yeltsin administration to pursue a relationship with the United States signaled a re-orientation of Russia away from such rogue states. Within the last three years, however, these nations have all made significant purchases from Rosvooruzhenie.

Libya and Rosvooruzhenie are currently in negotiations to upgrade, modernize, and maintain the Soviet technology that comprises the backbone of Libya's armed forces.⁷³ Interfax reports that Russia is also planning to sell several MiG-31s to Libya.⁷⁴

Syria recently received a delivery of Su-27 fighters and T-90 main battle tanks, and is being re-armed with Kornet-E and Metis-M man-portable, anti-tank missile systems. Syria is also negotiating the purchase of the S-300 anti-aircraft missile system.⁷⁵

Iran recently took delivery of an order of Russian Mi-171 naval transport helicopters.⁷⁶ Russia also recently granted Iran a license to mass-produce the 9M113 Konkurs anti-tank missile.⁷⁷ In 1997 Russia shipped its third *Kilo*-class diesel attack submarine to Iran, completing the contract for the sale of such submarines that had been negotiated in the early 1990s.⁷⁸

According to press reports earlier this year, Russia violated the U.N. arms embargo by arranging a \$90 million contract between Belarus and Iraq. Under the agreement, Belarus will upgrade Iraqi SA-3 surface-to-air missiles, enhancing their range from 18 to 25 kilometers--thus enabling Iraq to target American and British aircraft enforcing the no-fly zone. In addition, Belarus will overhaul Iraqi anti-aircraft guns, train Iraqi air-defense crews, and perform heavy maintenance on Iraqi military aircraft. The Russian government reportedly decided to arrange future arms deals with Iraq through such intermediaries after international criticism of a secret \$150 million contract which became public.⁷⁹



KILO-CLASS: Russia has sold *Kilo*-class attack submarines (above) to India, Iran, and the People's Republic of China.

The Failure of the Clinton-Gore Proliferation Policy

With Yeltsin's departure, Russia's official position on proliferation has taken a turn for the worse. The Russian media reported on May 11, 2000, that Vladimir Putin had amended Yeltsin's 1992 presidential decree limiting Russia's nuclear assistance to other countries. Putin's amendments allow sales of nuclear technologies and materials to countries whose nuclear programs are not fully monitored by the International Atomic Energy Agency, including Iran and North Korea.⁸⁰ While the new policy is nominally limited to "exceptional cases," one Russian Atomic Energy Ministry spokesman noted that it will "considerably expand" the scope of Russian export of nuclear technologies and materials.⁸¹

Concurrently, Rosvooruzhenie announced in June 2000 its intention to boost arms exports to between \$10 billion and \$12 billion over the next several years. In conjunction with that announcement, the

Russian government declared that Russia would become the second largest exporter of munitions in the world.⁸²

The growing Russian proliferation of advanced weaponry and technology, especially weapons of mass destruction, has created significant new risks for U.S. national security.

In spite of evidence that both Russian government agencies and private entities were directly involved in proliferation to such states as Iran and Iraq, the Clinton administration continued to rely on personal assurances from its small cadre of contacts in the Russian government that it was not "official Russian policy" to do so.⁸³ Administration officials--including Vice President Gore and Deputy Secretary of State Talbott--accepted these assurances despite clear evidence of continued proliferation, rather than believe, or admit, that proliferation could continue despite the stated opposition of their "partners."

More basically, the failure of the Clinton administration's economic strategy for Russia undermined its muted efforts to stem proliferation, both by preventing the redeployment of the military-industrial complex's assets to other uses and by creating strong incentives for those with access to such assets--ranging from individual soldiers and scientists to ministries and the central government itself--to sell them. Russian economic distress provided every incentive for scientists used to a privileged existence in Soviet times to auction their expertise; for organized crime to cash in on Russia's most valuable illicit export opportunities; and for Russian officials to sell almost anything they could, either for their own personal gain or to assist the entities they managed.⁸⁴

Finally, the increasingly anti-American perspective adopted by the Russian government over the course of the Clinton administration has promoted a wide range of proliferation activities.

Many of the most dramatic and important cases of proliferation, such as the provision of nuclear and missile technology to Iran, are the result of all three of these factors--economics, policy, and the absence of effective countervailing pressure from the Clinton administration.

Narrowly targeted Clinton administration anti-proliferation initiatives have been mere candles in the winds of Russia's economic storm. The Clinton policy has been utterly ineffective in overcoming the powerful incentives for Russian proliferation that were created by Russia's economic collapse and by the Russian government's increasingly hostile outlook toward America. The free ride offered by the Clinton administration--an arrangement in which aid was guaranteed, intelligence was ignored, and sanctions were an idle threat--has led to a manifest failure to stem the rising tide of Russian proliferation.

CHAPTER 10

FROM FRIENDSHIP TO COLD PEACE: THE DECLINE OF U.S.-RUSSIA RELATIONS DURING THE 1990s



PUTIN IN THE STALINIST CAPITAL: President Putin greets North Korea's dictator Kim Jong-Il at their July 20, 2000, summit in Pyongyang. This was the first time any Russian or Soviet leader travelled to the Stalinist state-not even Brezhnev went to North Korea. North Korea has recently threatened to "plunge the damned U.S. territory into a sea of flame," a threat more likely to materialize with outside support. In February 2000, Putin and Kim Jong-Il concluded a Russia-North Korea Treaty of Friendship, reviving ties scrapped by Yeltsin. Itar-TASS photo/Sergei Velichkin, Vladimir Rodionov

*Russia will strive toward the stable development of relations
with the United States, with a view toward
strategic partnership and, in the future, toward alliance.*

*Certain plans relating to establishing new, equitable and mutually advantageous partnership relations of Russia with the rest of the world,
as was assumed in the [1993 Foreign Policy Concept] and in other documents, have not been justified.*

Foreign Policy Concept of the Russian Federation, June 28, 2000

Russia's Enduring Significance

Although Russia is not a superpower with military and political ambitions on every continent as the Soviet Union was, U.S. relations with Russia remain of supreme national importance. Russia possesses by far the largest nuclear arsenal in the world,¹ and a military-technological base second only to that of the United States. Russia possesses vast economic potential, with a large and well-educated population and a staggering array of natural resources, including more than a third of the world's natural gas reserves.²

As a permanent member of the U.N. Security Council, Russia retains a veto over the actions of an organization to which the Clinton administration's multilateralism has often assigned a pivotal role in international affairs. And Russia profoundly influences vast areas of Europe, the Middle East, and the Far East--all regions of vital interest to the United States.

Russia matters immensely to American interests on virtually every continent, and especially across the critical Eurasian landmass that has been the scene of both world wars. As the noted Russia scholar James Billington, the Librarian of Congress, has written, "[b]oth the greatest opportunity and the greatest danger for the United States internationally may well still lie in Russia."³ The success of U.S. policy toward Russia is accordingly of supreme importance to the American people and the world.⁴

A 'Lost' Russia?

Ever since the Clinton troika's Russia policy began to fail visibly in the mid-1990s, the administration has responded by emphasizing both the limitations of U.S. influence in Russia and the still uncertain outcome of Russia's transformation. Secretary of State Albright has made the administration's case succinctly: "The suggestion made by some that Russia is ours to lose is arrogant; the suggestion that Russia is lost is simply wrong."⁵

If Russia is not yet "lost," it is indisputably more unstable, more corrupt, more lawless, and vastly more hostile to the United States than it was when President Clinton and Vice President Gore took office. And though Russia is certainly not "ours to lose," the United States--particularly at the outset of this administration--possessed immense influence over a wide range of decisions and events there. President Clinton inherited an immense reservoir of goodwill and prestige in Russia, making America's imprimatur quite valuable for Russian politicians and policy makers. In addition, the Clinton administration possessed--and has not hesitated to use--immense financial leverage over the Russian government by virtue of the more than \$20 billion in U.S. assistance it has provided, and the many billions of dollars more in international aid it has orchestrated.⁶

The aspects of Russia most subject to American influence, and for which the Clinton administration should therefore be held most strictly accountable, are the prestige within Russia of American values, and the state of the U.S.-Russian relationship.



DEFENSE COOPERATION: At their June 1992 summit, Presidents Bush and Yeltsin followed up on Yeltsin's January 1992 suggestion and agreed to work on a global missile defense system. In July 1992, Itar-TASS published a joint U.S.-Russian statement, which called for "the working out of a legal basis for cooperation, including new treaties and agreements and possible changes in the existing agreements required for the implementation of the global antiballistic missile system." The talks went well, and weeks after Clinton's election, on Nov. 30, 1992, Itar-TASS reported that Russia was considering "the necessary changes in the ABM Treaty of 1972 to take account of the spread of ballistic missiles and weapons of mass destruction." Instead of following up on the proposal, the Clinton administration precipitously broke off the negotiations. It followed up with a February 1993 budget that cut the Bush proposal for missile defense by 40%. AP Photo/Dennis Cook

Russian Perceptions of America Today

The current unfavorable state of U.S.-Russian relations accurately reflects the sea change in Russian perceptions of the United States that has occurred under the Clinton administration. This change in Russian perceptions of the United States--more than any particular development in the Russian government--is the most damaging legacy of the Clinton-Gore Russia policy.

Polling conducted by the State Department's Office of Research has charted a steep, steady decline in favorable opinion of the United States--from over 70% in 1993 to 65% in 1995 to 54% in 1997 to 37% in February 2000.⁸ During this period President Clinton himself has become second in unpopularity among Russians only to Saddam Hussein.⁹

James Billington, the Librarian of Congress, testified before the Advisory Group that for the first time, even ordinary Russians are now working up hostility toward the United States--a phenomenon decades of Soviet propaganda had been unable to achieve during the Cold War.¹⁰

These trends are longstanding, and are steadily worsening. Whereas in April 1995, some 61% of Russians believed that the United States sought world domination (versus 24% who disagreed), by February 2000 a staggering 85% believed it (compared to just 6% who did not).¹¹ The number of Russians who agreed that the U.S. was using Russia's current weakness to reduce it to a second-rate power and producer of raw materials climbed from 59% in August 1995 to 71% in April 1997 to 81% in February 2000.¹²

When the State Department polled the 75% of Russians who say they follow international affairs to some degree, more than twice as many expressed an unfavorable view of U.S. foreign policy as expressed a favorable view (46% vs. 19%).¹³

In Russian eyes, America's relations with Russia have also declined relative to many other countries. When Russians who follow international affairs were asked to evaluate Russia's relations with other countries as "friendly" or "difficult," 9% judged relations with the People's Republic of China difficult, and 52% judged them friendly. Some 16% judged relations with Germany difficult, versus 41% friendly; 18% judged relations with Japan difficult, versus 39% friendly. But Russians judged relations with the United States to be difficult, rather than friendly, by more than two-to-one. Of the nations surveyed, only Estonia fared worse than the United States, and Estonia's relations with Russia are currently in a well-publicized crisis.¹⁴

Perhaps most troubling, young people--the 18-35 generation least touched by Soviet-era thinking and the most open to westernization--now largely share the average Russian's unfavorable perception of America: in an April 1999 poll, 67% of this age cohort had a negative view of the United States, versus 18% who had a positive view.¹⁵

The extraordinarily favorable view of the United States that most Russians held in 1993 has given way to a pervasive, largely spontaneous hostility and suspicion.¹⁶ That this should occur during a period of profound peace between the two countries was, at the outset of the Clinton and Yeltsin administrations, neither inevitable nor even imaginable.

The sources of this collapse in American prestige have been much debated. Some have attributed it to NATO enlargement and American efforts to build ballistic missile defense, despite consistent polling evidence that these issues are largely irrelevant to the vast majority of Russians. Others have attributed it to the NATO intervention in Kosovo, an event with much greater resonance for ordinary Russians; but in fact the polling data show that much of the collapse in support for America occurred before Kosovo.

The explanation most strongly supported by polling data and other evidence is that Russian public opinion was and is overwhelmingly focused on the social and economic situation in Russia, and that the Clinton administration's embrace of unsuccessful domestic "reforms" and "reformers" disastrously tarnished the image of the United States. As Paula Dobriansky of the Council on Foreign Relations recently wrote:

A careful examination of the evolution of U.S.-Russian relations demonstrates that a long-term negative trend has been underway for years and that the Kosovo conflict, far from being its sole or even major cause, has merely helped to highlight much more fundamental, long-term problems. ... [M]ore than any other traditional international-related factor, it is the dismal failure of Russia's economic and political reforms, as perceived by the Russian people, that has been responsible for the palpable worsening of U.S.-Russian relations.¹⁷

The collapse in American prestige among virtually every segment of Russian society is striking evidence

of the bankruptcy of the Clinton administration's Russia policy. It represents a disaster of immeasurable significance for American foreign policy and for the future of America itself. It will render far more difficult every aspect of U.S. policy toward Russia, including the creation of a more broadly-based relationship extending beyond the narrow set of official interlocutors favored by the Clinton administration.

When the United States again seeks to engage a broader cross-section of Russian government and society--an enterprise endorsed by the vast majority of observers--the diffusion of suspicion and dislike for America that the Clinton policies over the past eight years have engendered will vastly complicate those efforts.

The 'Moscow Consensus'

The highly negative perceptions of the United States among ordinary Russians are consistent with the climate of elite opinion in Russia. Just as the Clinton administration's economic thinking about Russia coalesced early on into the so-called "Washington Consensus," so too Russian strategic and foreign policy thinking about the United States has coalesced into a "Moscow Consensus"--a point of view that largely unites not only Russia's foreign policy and defense establishments, but also Russia's entire political elite. It is a set of perceptions that commands solid assent from nearly every sector and level of Russian society.

This "Moscow Consensus" was visible in the Advisory Group's meetings with Russian executive branch officials and Duma Deputies in Washington and Moscow, in polling of the Russian elite, in general public opinion polling, and in Russian official and scholarly commentary on international affairs and the West.¹⁸ As Peter Rodman testified on July 16, 1998, (before the further downturn in U.S.-Russian relations occasioned by U.S. bombing against Iraq and Serbia, and renewed fighting in Chechnya):

It is not just a question of personalities. It is hard to detect significant differences of perception between [then-Foreign Minister Yevgeny] Primakov and President Boris Yeltsin--or, indeed, among members of the Russian foreign policy elite. ... The guiding principle of Russian foreign policy today is to preserve Russia's independence and freedom of action--meaning, in practice, its independence from us. In a "unipolar" world celebrated by some Americans, Russia sees its prime goal as restoring some "multipolarity" to the international system--that is, to build counterweights against American dominance.¹⁹

The Moscow Consensus represents the mainstream acceptance of the policy views of Russia's military, security, and foreign policy establishments, whose highest reaches possess a largely unreconstructed Soviet-era view of the United States.²⁰ To give only a few examples illustrating this Russian thinking:

* On October 1, 1999, the respected, centrist military analyst Lev Volkov gave the following analysis of American intentions:

[J]ust slightly more than one-tenth of the developed countries use almost 80% of the world's resources. ... Consequently, in the 21st Century, the fiercest of battles will take place for the possession of the resources the developed countries so desperately need. Besides this, up to 30% of the world's natural resources are concentrated in our country. Therefore, the U.S. and the West

need a weak, fragmented Russia as a source of inexpensive raw materials. In this way, we have something to defend and it is clear from whom.²¹

* Alexei Arbatov, Deputy Chairman of the Duma's Defense Committee and a respected, well-informed liberal, described the START II debate on May 9, 2000:

START II was ratified in Russia by the Russian Parliament not because Russians think that the threat is lower, not because Russians think that nuclear weapons are less relevant, nor because the Russian Parliament and public think that the United States will be a partner for cooperation and security. START II was primarily ratified because the Russian public and political elite think that the nuclear threat is great, that the United States is keen on achieving superiority, and that nuclear weapons are still as relevant as ever for Russian security and U.S.-Russian relations. ... The fear of American nuclear superiority and the fear of the United States [were] the principal motive for many Members of Parliament to vote for START II.²²

* A further window into Russian perceptions of American policy is offered by the extraordinary episode of January 25, 1995. At a time of significantly lower tensions in U.S.-Russian relations, the Russian government nonetheless suspected that a scientific satellite launch in Norway could be a missile carrying an electromagnetic pulse warhead--a weapon designed to disable a nation's military command and control, rendering the country susceptible to a follow-on nuclear first strike.

As a result, the government in Moscow "for the first time in Russian history triggered a strategic alert of their LOW forces, an emergency nuclear decision conference involving [President Yeltsin] and other national command authorities, and the activation of their famous nuclear suitcases."²³ The entire incident was a misreading of the Clinton administration's intentions so staggering as to suggest the need for a basic reassessment of the Russian official view of the United States.²⁴

Despite extraordinary budget constraints and economic hardship, the Russian government has devoted immense resources to the construction of massive underground headquarters facilities designed to wage and survive nuclear war at such sites as Yamantau and Kozvinsky Mountains in the Urals. Construction of the Yamantau Mountain facility, initiated by the Soviet Union during the depths of the Cold War, was accelerated by the Russian Federation during the 1990s so that, by 1998, it reportedly involved some 20,000 workers. The underground facilities under construction cover a territory as large as the entire Washington, D.C. area inside the Beltway.

In April 1997 it was publicly reported that the CIA attributed the decision to build and restore these sites, and four others in the Moscow area, to Prime Minister Viktor Chernomyrdin. One of the Moscow projects reportedly involved a subway line to President Yeltsin's dacha 13 miles outside the city²⁵--suggesting that the projects enjoyed the support not just of the defense establishment but of the civilian leadership as well. The fact that the Russian civilian and military leadership feels that these facilities are a worthwhile use of scarce resources shows a concern over the possibility of war with America that is extraordinarily troubling.²⁶

* During the crisis in U.S.-Iraqi relations in 1998, on the same day that President Yeltsin

warned that U.S. missile strikes on Iraq could cause a third world war, the Russian Embassy demarched the U.S. government to demand a guarantee that the United States would not use nuclear weapons against Iraq. As Chairman Curt Weldon has written, "the Russian assumption that the United States was prepared to act so precipitously with nuclear weapons betrays a paranoia or ignorance of the character of the United States that is alarming in the Russian nuclear superpower that is supposed to be our strategic partner."²⁷

* In October 1995 the Russian semi-official Institute of Defense Studies (INOBS) provided the following assessment of U.S. policy:

On the whole, it appears the principal mission of U.S. and Western policy with respect to Russia is to keep it from turning into an economically, politically, and militarily influential force and to transform post-Soviet space into an economic and political appendage and raw materials colony of the West. Because of this, it is the United States and its allies that are the sources of main external threats to Russia's national security, and they should be considered the principal potential enemies of the Russian Federation. ... The line of the United States and its allies toward intervening in Russia's internal affairs to impose on it paths of development in a direction favorable to the West represents the greatest danger.²⁸

The evolution of Russia's official views of the United States is traceable in the successive iterations of the state papers defining Russia's foreign policy and defense doctrines. The decline in U.S.-Russian relations is clearly visible when the 1993 and 2000 versions of the *Foreign Policy Concept of the Russian Federation* are compared. In the January 25, 1993, version of the *Concept*, the relationship between Russia and the United States is discussed at length. Although qualified by expressions of concern over various aspects of U.S. policy,²⁹ the 1993 *Foreign Policy Concept* states unequivocally that:

[R]elying on the existing agreements in the military-political and financial-economic spheres, Russia will strive toward the stable development of relations with the United States, *with a view toward strategic partnership and, in the future, toward alliance*. ... In the sphere of security, the main trait of the new partnership is the transition to cooperation at the level of military planning and military construction.³⁰

Concerning U.S.-Russia relations, the 1993 *Foreign Policy Concept of the Russian Federation* stated that:

For the foreseeable future, relations with the United States will retain a prominent place on the scale of Russia's foreign policy priorities, corresponding to the position and weight of the United States in world affairs. The development of full-fledged relations with the United States is capable of facilitating the creation of a favorable foreign environment for the implementation of domestic economic reforms in Russia.³¹

Eight years later, not a trace of this tone or policy remains. The revised *Foreign Policy Concept of the Russian Federation*, approved by President Vladimir Putin on June 28, 2000, unmistakably repudiates the very idea of "partnership" implicit in the 1993 version--and the rhetoric of the Clinton administration.

Along with certain strengthening of the international positions of the Russian Federation,

negative tendencies are in evidence as well. *Certain plans relating to establishing new, equitable and mutually advantageous partnership relations of Russia with the rest of the world, as was assumed in the [1993 Foreign Policy Concept] and in other documents, have not been justified.*³²

The new *Foreign Policy Concept of the Russian Federation* reflects a completely different view of American power, listing first among "new challenges and threats to the national interests of Russia":

... a growing trend towards the establishment of a unipolar structure of the world with the economic and power domination of the United States. ... The strategy of unilateral actions can destabilize the international situation, provoke tensions and the arms race, [and] aggravate international contradictions, national and religious strife. ... Russia shall seek to achieve a multi-polar system of international relations. ...³³

Interspersed between lengthy and comparatively favorable assessments of European³⁴ and Asian³⁵ relations are two cold paragraphs on a Russian-American "strategic partnership" that has been reduced to mere "necessary interaction":

The Russian Federation is prepared to overcome considerable latter-day difficulties in relations with the U.S., and to preserve the infrastructure of Russian-American cooperation, which has been created over almost 10 years. Despite the presence of serious, and in a number of cases fundamental, differences, Russian-American interaction is the necessary condition for the amelioration of the international situation and achievement of global strategic stability.

Above all, this concerns problems of disarmament, arms control, and non-proliferation of weapons of mass destruction, as well as prevention and settlement of the more dangerous regional conflicts. It is only through an active dialogue with the U.S. that the issues of limitation and reduction of strategic nuclear weapons may be resolved. It is in our mutual interest to maintain regular bilateral contacts at all levels, not allowing pauses in relations and setback in the negotiating processes on the main political, military, and economic matters.³⁶

In the revised version, relations with the United States are reduced to the Cold War agenda of security issues and negotiations--an agenda on which other portions of the document lay out positions largely at odds with the United States, apparently presaging a reprise of Cold War deadlocks. Likewise disconcerting is the fact that this passage appears to be aimed at least equally at persuading a dubious domestic audience of the need for "regular bilateral contact at all levels"--a staggering state of affairs for a relationship that the Clinton administration built entirely around the personal contacts between Vice President Gore, Strobe Talbott, Lawrence Summers, and their handful of Russian counterparts.

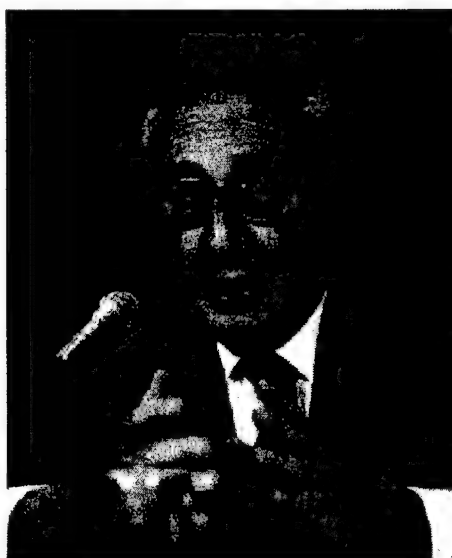
A similar decline is apparent in comparing Russia's December 1997 *Russian Federation National Security Blueprint* with its recently revised version.³⁷ The 1997 document, although approved by Yeltsin after years of development over a period of sharply increased tension with the United States, included relatively little that is specific to the United States. Its survey of "Threats to the National Security of the Russian Federation" was dominated by internal factors, and the discussion of NATO enlargement (described as creating "the threat of a split in the continent that would be extremely dangerous") was relatively restrained. It concluded that:

the main [threats] right now and in the foreseeable future do not have a military orientation

and are of a predominantly internal nature. ... The development of qualitatively new relations with the world's leading states and the virtual absence of the threat of large-scale aggression against Russia while its nuclear deterrent potential is preserved make it possible to redistribute the resources of the state and society to resolve acute domestic problems on a priority basis.³⁸

In foreign policy, it promoted "constructive partnership with the United States, the EU, China, Japan, India, and other states."³⁹

The revised *Russian Federation National Security Concept* approved by the Russian National Security Council on October 5, 1999, by contrast, opens with a stark dichotomy between "mutually exclusive tendencies toward forming a multipolar world and toward establishing the domination of one country or group of countries in world affairs"--specifically "the domination of developed Western countries in the international community (with U.S. leadership) calculated for unilateral (including military-force) solutions to key problems of world politics in circumvention of fundamental rules of international law."



STATESMAN-LIKE ADVICE: Former Secretary of State Henry Kissinger testifies in support of NATO enlargement before the Senate Foreign Relations Committee Oct. 30, 1997. Secretary Kissinger strongly opposed both the Clinton administration's "Founding Act" and its "Partnership for Peace" program as undermining the Atlantic Alliance, and testified that the Clinton administration "has embraced the proposition rejected by all its predecessors over the last 40 years--that NATO is a potential threat to Russia." He dismissed the argument that the Founding Act was non-binding as one that "may carry weight in law schools [but is] irrelevant to the diplomacy that will result from an instrument signed by 17 heads of state and ratified by the Russian Duma." AP Photo/W. Douglas Graham/Congressional Quarterly

The 1999 *National Security Concept* rejected the earlier view that Russia faced no external military threat, instead stating that the totality of external threats "can present a threat to Russia's sovereignty and territorial integrity, including the possibility of direct military aggression against Russia." Of the eight external threats enumerated, three are clearly related to U.S. policy and another two may refer to it indirectly.⁴⁰ Senior Russian officers also made it unambiguous that the source of the "external threat" was the United States and NATO.⁴¹

The decline in U.S.-Russia relations that these doctrines memorialize did not occur overnight, and no

single factor or event transformed Russia's relationship with the United States. Rather, a whole series of policy mistakes, often but not exclusively made in Washington, produced the current crisis in U.S. relations with Russia.

Mishandling NATO Enlargement

Some observers attribute part of the decline in U.S.-Russian relations and the concurrent Sino-Russian rapprochement to the enlargement of NATO, and from this premise draw the conclusion that NATO enlargement was a mistake. Little evidence supports either the premise or the conclusion. NATO enlargement is not a highly salient issue for the Russian general public.⁴² Russian elite and official opinion, though hostile to NATO enlargement, has consistently attached greater importance to other foreign policy issues and, most particularly, to domestic economic and social issues. The flaw in the Clinton administration's NATO policy, and the principal source of damage to U.S.-Russian relations attributable to NATO enlargement, was the administration's protracted *obstruction* of NATO enlargement.

Initial Clinton administration opposition to NATO enlargement was followed by a belated embrace of a phased enlargement, to be drawn out over more than a decade. This approach completely missed the early window of opportunity to comprehensively enlarge NATO without serious or lasting damage to U.S.-Russian relations. As late as the August 25, 1993, summit between President Yeltsin and Polish President Lech Walesa in Warsaw, the joint statement issued by the leaders expressed Russia's "understanding" of Poland's desire to accede to NATO. Indeed, Yeltsin subsequently was publicly and privately criticized for this in Russia, and as a result later suggested joint NATO-Russian security guarantees for the Central European states.⁴³

The solution to the political problem caused within Russia by NATO enlargement was to localize it in time, rather than protracting Russia's discomfiture over more than a decade or buying off Russia with implicit promises of power-sharing that NATO ultimately had no intention of honoring. But key figures in the Clinton administration were ambivalent towards NATO itself, much less NATO enlargement.

This was especially true of one of the Clinton troika, Strobe Talbott. Even before the end of the Soviet Union, in 1990, Talbott wrote that "[i]t ... is time to think seriously about eventually retiring the North Atlantic Treaty Organization, with honor, to be sure, but without too much nostalgia. ... NATO is at best a stopgap until something more up-to-date and effective can be devised to take its place."⁴⁴

Not surprisingly, given such deep-seeded doubts, the Clinton administration moved with excruciating slowness--only proposing the generic concept of NATO enlargement after Clinton had been in office for a full year. At the January 1994 NATO summit, the Clinton administration proposed the NATO halfway-house Partnership for Peace program (largely to paper over a lack of consensus on the pace and scope of NATO enlargement itself).⁴⁵ After a further 12-month delay, at a December 1994 ministerial meeting, they proposed criteria for NATO admission (but not actual candidates).

Criteria for admission were not formalized until September 20, 1995. The proposed admission of new members by 1999 did not occur until October 22, 1996; naming the Czech Republic, Hungary, and Poland as the American candidates for admission took until June 12, 1997 (the nominations were ratified at NATO's Madrid summit on July 8, 1997). The formal admission of the three states to NATO did not take place until March 12, 1999--nearly a decade after the fall of the Berlin Wall.

The grandiose NATO 50th anniversary summit in Washington on April 23-25, 1999, brought no substantive progress towards further enlarging the alliance, or even better articulating the process and criteria for membership. On June 30, 1999, Defense Secretary William Cohen stated that while NATO's "door is open," it was "at the top of a steep stairwell."⁴⁶ The Clinton administration's mantra for NATO enlargement--that it would be "gradual, deliberate, and transparent"--has translated into a process that promises to extend well into the 21st century.

Throughout the process, the Clinton administration also repeatedly diluted the effectiveness of NATO's security guarantee to new member-states and distorted the fundamental structure of the alliance itself in an attempt to appease the Russian opposition exacerbated by its own delays. Despite lip service to the proposition that "[a]ll members, regardless of size, strength or location, should be full members of the Alliance, with equal rights and obligations,"⁴⁷ on December 10, 1996, NATO formally announced that it had "no intention, no plan, and no reason to deploy nuclear weapons on the territory of new members. ..."

On September 6, 1996, Secretary of State Warren Christopher endorsed a French proposal to create a joint NATO-Russian "charter." On May 27, 1997, Russia and NATO, with the Clinton administration's strong encouragement, agreed to the "Founding Act"--a much different document creating a NATO-Russia Permanent Joint Council, and codifying the December 1996 nuclear non-deployment pledge. The Founding Act also added a further pledge that "in the current and foreseeable security environment," NATO would not station "substantial combat forces" on the territory of new member-states.⁴⁸

The Founding Act is a particularly egregious example of the disingenuousness of the Clinton administration's approach to foreign policy in general, and Russia policy in particular. After having heightened the difficulty of NATO enlargement by protracting the process through the entirety of Clinton's and Yeltsin's first terms, and with no end to the process in sight, the administration was bent on solving the problems its delays had created by securing Russian assent to the first round of NATO enlargement. Its method of squaring this circle was the Founding Act, a nebulous document *designed* to mean different things to Russian, Central European, and NATO audiences.

The Founding Act was signed in May 1997 by seventeen heads of state in a blaze of trademark Clinton showmanship in the Salle des Fêtes of the Elysée Palace. At root, the Founding Act was an attempt to paper over profound substantive differences, including over such issues as Bosnia and the expanding crisis in the Balkans. Instead of hammering out substantive agreements, the Clinton administration created an open-ended negotiating *process*.

The ambiguity of the Act led President Yeltsin to claim plausibly that it gave Russia a virtual veto over NATO operations, saying that "[s]hould Russia be against any decision, the decision will not pass."⁴⁹ Administration spokesmen from the president down claimed that it gave Russia "a voice, not a veto" in NATO decision-making and a veto only over joint NATO-Russian actions.⁵⁰ As Dimitri Simes has argued:

[I]nterpretations of the agreement in Washington and Moscow were clearly vastly different--and each interpretation was bound to cause serious problems. If the Russian interpretation had been followed, Moscow would have gained a de facto veto over NATO actions. Conversely, if the Clinton administration's interpretation was followed--as happened--it was almost inevitable that Russia would feel misled by false promises of a genuine role in NATO deliberations.⁵¹

The Clinton administration continued its delaying tactics at the 1998 Madrid summit. It vetoed a French proposal to admit Romania, and an Italian proposal to admit Slovenia, despite the support of most NATO allies for a broader enlargement. The administration's unwillingness to go forward was apparently motivated at least in part by fear that admitting Romania and Slovenia in the first round would increase pressure for admission of the Baltic states in the second round.

Predictably, neither the delaying tactics of the Clinton administration nor the Founding Act appeased Russia. By late 1996, a resolution opposing NATO enlargement had already passed the Duma by a vote of 307-0. The subsequent studied ambiguity of the Founding Act led to a fundamental breach between NATO and Russia within less than two years, as NATO decided to intervene in Kosovo. Russian expectations of decisional partnership (which the Clinton administration had dishonestly encouraged in order to finesse its way through the 1997 enlargement round) were abruptly dashed in the 1999 dispute over Kosovo. Russian disillusionment with the United States was far deeper than if no such ambiguous promises had ever been tendered in the first place.

It is unclear what strategy the Clinton administration may now develop to reconcile Russia to subsequent rounds of enlargement, which administration spokesmen describe as "inevitable."

Amputation One Inch at a Time

Protracting NATO enlargement over the course of more than a decade in a perversely counterproductive effort to assuage Russian official opinion has been justly compared to amputating a limb one inch at a time, with the goal of diminishing the patient's suffering. As a result of this temporizing, NATO enlargement became an issue in the 1996 Russian presidential race, and will be a continuing irritant in U.S.-Russian relations as each cycle of enlargement occurs.

The fundamental flaw in the Clinton administration's approach was the assumption that the issue was critical to U.S.-Russian relations and, still more, to the fate of Russia's internal reforms. As former Under Secretary of State Robert Zoellick testified in April 1995:

I am skeptical that the fate of Russia's reform depends on whether NATO expands. ... In addition, given the great uncertainties about Russia's political future, it would be a mistake to try to fine tune our policies to suit the twists and turns of Russia's internal debates. It certainly should not be surprising that Yeltsin, Kozyrev and others have toughened their rhetoric about NATO expansion as the U.S. and others have signaled their uncertainty. ... [I]f we back down, the next time the hard-liners have a contest with moderate Russians, the hard-liners will be able to argue that sternness with the West pays off.⁵²

NATO Enlargement Without Threatening Russia: What Could Have Been

From the earliest days after the end of the Soviet Union, Republican leaders in both houses of Congress made NATO enlargement a central foreign policy initiative. Over Clinton administration opposition and delays, legislation to promote NATO expansion was repeatedly advanced in Congress.⁵³

These bills in their totality represent a sharp rebuke of the Clinton administration policy of lengthily-phased enlargement, unequal security treatment for new members, and inclusion of the Joint Council in alliance decision making. The Clinton administration vigorously opposed most of these legislative initiatives, although it was unable to prevent a number of them from becoming law.

Congress' approach, unlike the Clinton administration's, has been rooted in the understanding that NATO enlargement, like the creation of NATO in 1949, is fundamentally defensive in nature. It is a reaction to the fundamental imbalance of power between Russia and its neighbors, either individually or in combination--an age-old reality reflected in Romanov dominion over Poland, the Baltic nations, Finland, Belarus, and Ukraine in the 18th and 19th centuries, and Moscow's sway over the still vaster imperium of the Soviet Union and Warsaw Pact in the 20th century. This tragic history entitles these peoples to insurance against the possibility of renewed Russian domination.⁵⁴

In addition, just as NATO proved essential to fostering democracy and the rule of law in Germany, Italy, Portugal, Spain, Greece, and Turkey, so too NATO membership will promote those values and the stability that flows from them in Central European countries struggling to revive or create free markets and democracy after decades of Communist autocracy.

And just as NATO membership helped abate the rivalry between France and Germany and contain disputes between Greece and Turkey, so too NATO membership will help diminish long-standing animosities between the nations of Central Europe. The mere prospect of NATO membership helped promote settlement of issues predating World War II between Germany and the Czech Republic, and led Hungary and Romania to resolve centuries-old territorial disputes. These goals--of independence, democracy, stability, and reconciliation in Central Europe--are as much in Russia's interest as they are in America's.

Moreover, the achievement of these goals through NATO enlargement involves no objective threat to Russia itself⁵⁵--particularly in light of the Clinton administration's avowal that it has no intention of pre-positioning nuclear weapons, NATO forces, or military infrastructure in the new members. The indigenous military capabilities of the Central European new and candidate members, either singly or in combination, present no objective threat to Russia.⁵⁶

The Failure of Economic 'Reform' and the Decline of U.S.-Russian Relations

The fundamental cause of worsening U.S.-Russian relations in the early years of the Clinton administration was the tectonic shift in Russian domestic politics in this period, and the close association of the United States with individuals and policies that were discredited by it.

Russian faith in democracy, free enterprise, and "reform" suffered hammer blows in the years from 1993 to 1996. This period withstood the shattering confrontation between Yeltsin and the legislature in October 1993; the electoral success of nationalist extremists like Zhirinovsky in the December 1993 elections to the Duma; the bloody and disastrous first Chechen war beginning in December 1994; the "loans-for-shares" privatization fiasco in 1995-96, which ordinary Russians perceived as a witches' sabbath of corruption and theft orchestrated by Washington; the 1995 Duma elections, which returned an entrenched Communist-led bloc bent on thwarting reform; and the 1996 flood of IMF money into the hands of Russia's unpopular *semibankirshchina*--the so-called "Rule of the Seven Bankers" whom oligarch Boris Berezovsky had said owned half of Russia.⁵⁷

Because the United States was inextricably associated with both the "reformers" and their "reforms," these events cumulatively had a disastrous effect on the public and elite perception of the United States. The result was a climate of opinion in which both Communists and "reformers" profited from attacking the United States, from making common cause with the Communist government of the People's Republic of China, and from embracing American opponents such as Iran and Iraq. For many Russian ideologues, these attacks were a matter of conviction; for many embattled "reformers" from Yeltsin on down, they became a comparatively inexpensive expedient to appease critical public opinion without tampering with more important domestic priorities--such as the "loans-for-shares" insider privatization program.⁵⁸

At critical junctures such as the October 1993 confrontation with parliament, and the run-up to the 1996 presidential election (when Yeltsin reportedly contemplated canceling balloting to prevent his potential defeat) Yeltsin became far more dependent on the military and security services. He was consequently far more susceptible to their policy agenda of opposition to the United States--particularly since he was unable to satisfy their highest priority, increased funding. Just as he did in his relations with the Duma, Yeltsin was able to use anti-American foreign policy stances as a relatively inexpensive sop to the "power ministries"--defense, interior, the security services, and atomic energy.

As internal Russian economic, political, and social developments accelerated Moscow's turn away from Washington and toward U.S. rivals, the Clinton administration clung even more desperately to its habit of dealing exclusively with the handful of Russian executive branch officials, such as Yeltsin, Chernomyrdin, and Deputy Prime Minister Anatoly Chubais, who would assure them personally that everything was going smoothly. This had the effect of inextricably associating the United States and American values with politicians who were rapidly becoming among the most unpopular figures in Russia--further worsening America's precipitous fall from favor among both Russian elites and the Russian public.

Similarly, the Clinton administration continued to link itself with successive flawed reform plans that it produced in collaboration with its circle of Russian partners. When both the "reformers" and their "reforms" became discredited and unpopular, it was predictable that their foreign patron, the United States, would become discredited and unpopular as well.

Kosovo

Operation Allied Force, the 1999 air campaign triggered by the Milosevic government's repugnant campaign of ethnic cleansing in Kosovo, powerfully reinforced the negative view of the United States held by Russian public opinion at every level.⁵⁹ The initially one-sided press coverage of the 89-day NATO air campaign against Serbia quickly deepened animus towards the West.⁶⁰ A poll released April 1, 1999, reflected 92% Russian public disapproval of the NATO airstrikes;⁶¹ in another poll, 65% believed that NATO was the aggressor.⁶² Indeed, President Yeltsin's own strident reactions may have been colored in part by the need to court inflamed public opinion: the main proponents of the then-pending impeachment proceedings against him in the Duma were nationalists vehemently opposed to NATO's actions.⁶³

The Russian government was infuriated by the betrayal of its reading of the NATO-Russian Founding Act. The Clinton administration's willingness to conclude this fundamentally ambiguous agreement in

1997 was thus proved early on to have been a costly error. Moscow was not only upset by the process of taking NATO action without Russia's consent. The Russian government also feared that the policy of NATO military action for reasons other than responding to an attack on NATO, and without U.N. sponsorship, might be a precedent for future NATO action in Chechnya.

This, too, was an example of the high cost of the Clinton administration's disingenuous statements. Russia took the Clinton administration's sweeping human rights rhetoric more seriously than did the administration itself, which had largely ignored Russian atrocities in Chechnya in 1994-96, and would make no effectual protests later in 1999, when Russian troops began their brutal second assault.

Moscow took drastic steps to underline its displeasure. In March 1999, because of impending NATO airstrikes in Yugoslavia, then-Prime Minister Primakov abruptly canceled his visit to the United States, literally turning his airplane around in mid-air en route to a scheduled meeting of the Gore-Primakov Commission. President Yeltsin subsequently suspended Russian participation in a broad range of cooperative efforts underway with NATO and NATO member countries, citing "deep outrage" about NATO's bombing campaign.⁶⁴ Russia also withdrew control from NATO over its Bosnia peacekeepers, and placed them under the command of the Russian General Staff.

In April 1999, Duma Speaker Gennady Seleznyov told the press that President Yeltsin had ordered Russian missiles re-targeted on NATO Europe, rescinding the de-targeting pledge he had made with great fanfare at the 1997 Paris summit at which the Founding Act was signed. Although Moscow subsequently denied the reports, Yeltsin himself warned that Russia could not allow NATO ground forces to invade Serbia, and said that "I told NATO and the Americans and Germans: do not push us into military action, or there will definitely be a European and possibly a world war."⁶⁵

When at the height of the crisis Yeltsin named Viktor Chernomyrdin to help mediate the U.S.-Russia dispute, Vice President Gore's close personal relationship with his favorite interlocutor proved less than helpful. Chernomyrdin wrote in the *Washington Post* that the NATO operations in Kosovo had "set back [U.S.-Russia relations] by several decades," and compared the air campaign against Milosevic to the Soviet Union's crushing of the Prague Spring. He concluded by stating that "[t]he world has never in this decade been so close as now to the brink of nuclear war."⁶⁶

Nor were these verbal broadsides a smokescreen to allow Chernomyrdin to adopt a more cooperative policy than Primakov's, as Clinton and Gore had initially hoped. Gore's friend Chernomyrdin was an obstructive ally of Milosevic until the final stage of the negotiations, actively colluding with Belgrade to such a degree that it became necessary to add an additional intermediary, Finnish President Maarti Ahtisaari, to the negotiations.⁶⁷

The fundamental differences between the United States and Russia not only over the manner in which the Kosovo operation was handled, but over whether NATO should have intervened in Kosovo at all, made a significant cost to the U.S.-Russian relationship unavoidable. But the major factors that inflamed the situation were entirely avoidable. All that had preceded the Kosovo campaign guaranteed that the United States had no reservoir of goodwill among the Russian people.

As a result, the Russian public was willing to believe the worst about NATO and the American government. The spectacular failure of the Clinton troika policies made it politically advantageous for a wide range of Russian political figures--from Yeltsin to Lebed to Zyuganov--to attack NATO and the United States, and made it exceptionally risky for any Russian to defend them.

The result of eight years of the Clinton administration's "strategic partnership" with Russia, tens of

billions of dollars in aid, and high-pressure courtship and flattery by senior U.S. officials from President Clinton and Vice President Gore on down, is that the United States is losing popularity contests with Slobodan Milosevic in Russia even today.

The Destabilizing Effects of the Clinton Troika Policy on Russia's Neighbors

Increasingly, throughout the tenure of the Clinton administration, Russia has worked to assert influence over a number of the former Soviet "Union Republics" in what Russia calls the "near abroad." These efforts have steadily intensified, and appear to have received a fresh impetus under the new Russian administration.

Although Russia's legitimate economic and security interests are implicated in its relations with its neighbors, Russian policies towards them have often suggested that Moscow is not looking for a relationship of sovereign equality, but is instead seeking to again exert its will over its weaker neighbors.

Russia's new *Foreign Policy Concept* states that relations with the former republics "should be structured ... to take into account in a due manner the interests of the Russian Federation, including in terms of guarantees of rights of Russian compatriots," tens of millions of whom live in the "near abroad." Russia's Union with Belarus is cited as the model for such relations: "a priority task is to strengthen the Union of Belarus and Russia as the highest, at this stage, form of integration of two sovereign states."⁶⁸

While Russia's Union with Belarus is consensual,⁶⁹ at least as far as Belarus' autocratic President Lukashenka is concerned, renewed Russian activity in other countries has not been as welcome. Ukraine, for example, finds itself facing renewed economic pressure due to its dependence on Russian gas.⁷⁰ Despite Ukraine's great strategic importance to the United States the "pronounced russocentrism"⁷¹ of the Clinton team has led to "ignorance of and, worse, indifference toward the other successor states, notably Ukraine."⁷²

Kazakhstan has also come under increasing economic and political pressure.⁷³ Pavel Borodin--the State Secretary of the Belarus-Russian Union, a close associate of President Putin, and a central figure in Swiss criminal investigations of Kremlin financial dealings and money-laundering--predicted during Putin's April 2000 visit to Minsk that both Ukraine and Kazakhstan, as well as possibly other former Union Republics, would join the Russia-Belarus Union in the next three to four years.⁷⁴

In addition, Russia has actively intervened in the internal affairs of Georgia, helping to foment secessionist violence in Abkhazia and Southern Ossetia, and maintaining Russian "peacekeepers" who themselves have required OSCE monitors. Moscow has also repeatedly threatened the Baltic states. And despite recent visits by members of the Clinton administration,⁷⁵ many of the Central Asian republics have increasingly turned to Moscow for assistance in dealing with the threat of terrorism and radical Islamic separatism.⁷⁶

Rather than tempering Russia's ambitions, the Clinton administration's weak policy has emboldened Moscow, undercutting the ability of the new independent states to maintain unfettered sovereignty. Former U.S. Ambassador to Belarus David H. Swartz attested to "Talbot's policy of looking at regional matters through Russia's prism, as though the [Soviet] Union still existed; of ignoring the other new states; of conveying unmistakable signals to Moscow that the United States recognized its hegemonic

'rights' in what Moscow calls its 'near abroad.'"77



NEW USE FOR OLD ICBMs: Russia's new nuclear doctrine involves heavier reliance on nuclear weapons--and their first-use--than did the doctrine of the U.S.S.R. Russia is retiring its older ICBMs and, unlike the United States, developing and building new models to maintain a smaller and more modern force. A Russian army SS-25 "Topol" (Poplar) ICBM is taken into position during military training near Irkutsk, Siberia, Russia, Apr. 12, 1995. AP Photo

Russia's New Nuclear Doctrine

Russia's current nuclear doctrine⁷⁸ carries enormous risks for both the United States and Russia. Successive Russian defense doctrines have dramatically lowered the threshold for the use of nuclear forces.

For example, as early as October 1994, Lt. Gen. G.D. Ivanov, Assistant Defense Minister for Policy, gave a presentation on Russian nuclear doctrine to an American delegation headed by Assistant Secretary of Defense Ashton Carter. He outlined a "model of military deterrence" involving four scenarios, three of which involved potential use of nuclear weapons. Only the first, deterrence of a potential non-nuclear aggressor, was to be accomplished by conventional deterrence. Nuclear deterrence was to be employed against not only a potential nuclear aggressor, but also against a non-nuclear aggressor allied with a nuclear state. Nuclear weapons could also be used against a non-nuclear aggressor if it was acting together with, or being supported by, a nuclear state.

Indeed, as one observer noted, there is "a tendency today to consider solving the problem of Russia's immense weakness in conventional arms by introducing low-yield, tactical nuclear weapons in order to strengthen conventional deterrence."⁷⁹

Russia's new nuclear doctrine thus involves heavier reliance on nuclear weapons--and their first use--than did the doctrine of the U.S.S.R. As General Ivanov has noted:

As you can see, Russia's new military doctrine includes a harsher, stricter component in its nuclear policy with respect to surrounding countries. ... [W]e want every state, including non-nuclear ones, to consider the possible consequences of initiating aggression against Russia. ...⁸⁰

This change of doctrine is especially troubling because Russia's capacity to accurately assess whether it is being attacked, and to control its strategic forces, is decaying.⁸¹ Compounding this problem is the fact that Russia has adopted a hair-trigger "launch on warning" posture that compresses nuclear decision

making to a few minutes. As Bruce Blair of the Brookings Institution has testified:

Russia's heavy reliance on this option means that its early warning and nuclear release procedures require a response time of 15 minutes in total; they allow only three or four minutes for detecting an attack, and another three or four minutes for top-level decision making. ... It is obvious this is not a safe operational practice ... and its [danger] is compounded by the deterioration of Russia's command-control system and missile attack early warning network. ...⁸²

Russia's nuclear posture reflects much more than the decay of its technical capabilities, however. Much of Russia's senior-level officer corps appears to regard the United States with such intense suspicion as to make an American first-strike seem plausible to them.⁸³ This attitude forms a striking contrast with the Clinton administration's rosy vision of its relationship with Moscow--particularly given the increasing influence of the Russian foreign-policy and military establishment's views on mainstream Russian thinking.

The combination of these factors has created an extraordinarily unstable and dangerous security environment for the United States and Russia a decade after the end of the Cold War.

Recently, there have been extensive though inconclusive press reports that the Russian government is reconsidering its military funding priorities.⁸⁴ There has been a longstanding, multidimensional rivalry between the conventional forces, championed by the general staff, and the Strategic Rocket Forces (RVSN), strongly supported by the current Defense Minister, a former commander of the RVSN. It involves, among other issues, resource allocation issues. The outlines of any final decision remain unclear.

What is clear, however, is that no reallocation of resources will address the *subjective* mistrust of American intentions that produced the 1995 war scare, and led the Russian government to spend immense resources on the deep-underground facilities at Yamantau Mountain.

The Outmoded ABM Treaty: A Case Study in Policy Failure

The mounting tension over U.S. plans to deploy national and theater missile defenses offers a sobering case study of the disintegration of U.S.-Russian relations under the Clinton administration, the parallel movement toward a proto-alliance between Russia and the People's Republic of China, and the extraordinarily-serious implications of these developments for the supreme national interests of the United States.

After eight years in office, the Clinton administration made headlines with its abortive quest for a "grand bargain" with Russia over national missile defense at the Moscow summit in June 2000. The limited aims of the summit, which nevertheless were not achieved, stand in marked contrast to the far more desirable "grand bargain" that was within sight when President Clinton took office in January 1993.

In his State of the Union address on January 29, 1991, President Bush dramatically recast the Strategic Defense Initiative away from a large-scale effort to preserve U.S. nuclear retaliatory capabilities against a Soviet first strike. His proposed GPALS (Global Protection Against Limited Strikes) system reoriented America's proposed missile defenses toward the far more limited threats of accidental or unauthorized

launch, or emerging threats from third countries. It therefore dramatically reduced the scope of the program.

President Bush's proposal responded to and fostered the ongoing sea change in U.S.-Soviet and U.S.-Russian relations. It also reflected the growing risk of attack by third countries--a risk that had been dramatized just days before, when Saddam Hussein used Scud ballistic missiles against civilian targets in Israel and against U.S. forces in Saudi Arabia during Operation Desert Storm.

While President Bush downscaled the scope of the threat against which GPALS would defend, he also extended the protection intended by the system from U.S. nuclear forces to the whole American homeland--and also to "our forces overseas and ... our friends and allies."⁸⁵

President Bush worked closely with Senator Sam Nunn and the Democratic Congress to build consensus for his new approach--a lesson unheeded by the Clinton administration, which has repeatedly sought to evade or preclude Congressional review of its initiatives. The Bush administration secured Democratic support for the enactment of the Missile Defense Act of 1991, which made it our national goal to "deploy an anti-ballistic missile system, including one or an adequate additional number of anti-ballistic missile sites and space-based sensors, that is capable of providing a highly effective defense of the United States against limited attacks of ballistic missiles."⁸⁶ The Act authorized negotiations to facilitate deployment, and authorized a limited initial deployment of ground-based interceptors supported by ground- and space-based elements. Though far from ideal, the Missile Defense Act represented a constructive compromise that transcended prior Democratic opposition to the concept of ballistic missile defense.

The Russian response was exceptionally promising. President Gorbachev wrote to the G-7 summit participants in July 1991 to indicate his interest in pursuing some form of missile defense cooperation, a position surprisingly echoed by the Chief of the Soviet General Staff.⁸⁷ The accession of Boris Yeltsin to power led to an even more significant turn of events: Yeltsin's January 1992 U.N. speech urging that "the time has come to consider creating a global defense system for the world community. It could be based on a reorientation of the United States Strategic Defense Initiative, to make use of high technologies developed in Russia's defense complex."⁸⁸

Yeltsin's Global Protection System (GPS) proposal was discussed at the June 1992 Camp David summit of the two Presidents. That summit gave rise to the so-called Ross-Mamedov negotiations seeking cooperation on early warning, defense technology, non-proliferation, and the legal regime necessary to under-gird the GPS--including important amendments to the 1972 Anti-Ballistic Missile Treaty.

The Ross-Mamedov group held two highly promising negotiating sessions before being abruptly and unilaterally suspended by the incoming Clinton administration, which subsequently ordered the U.S. delegation to the Standing Consultative Committee to *withdraw* the ABM Treaty amendments that had been proposed by President Bush.

As President Clinton's former CIA Director James Woolsey wrote recently:

In early 1993, the administration could have chosen to continue some promising negotiations--the Ross-Mamedov talks--which were, at that point, only one year old. ... Negotiators were beginning to discuss an approach that would leave research and development unconstrained, deploy over 1,000 interceptors at multiple sites, and place a time limit on the duration of the ABM Treaty, to allow future deployment of space-based interceptors. But the new Clinton administration canceled the talks and took the position

that the ABM Treaty was the "cornerstone of strategic stability" between the U.S. and Russia.⁸⁹

The abrupt Clinton action shocked the Russian government, and gave rise to lasting, deep-seeded suspicions of U.S. strategic intention and good faith.⁹⁰

Although the Clinton administration's actions offended Moscow, they were actually aimed at a different enemy: the signature Reagan-Bush emphasis on strategic defense. The new administration was determined to bury the late-20th century version of the Reagan Strategic Defense Initiative they had for so long derided as "Star Wars."

On May 13, 1993, Defense Secretary Les Aspin, in announcing a sweeping downgrading of the entire strategic defense program within the Defense Department, proclaimed "the end of the Star Wars era."⁹¹ The new Clinton Defense Department had by then already announced that it was making national missile defense a lower priority than theater missile defense, transforming the former from an acquisition program to a "technology readiness program"--its status until the final months of the first Clinton term.⁹²

Notwithstanding President Yeltsin's personal involvement in the missile defense proposal, the Clinton administration stridently asserted that missile defense would do long-term damage to U.S.-Russian relations. Over time, Russian officials obligingly took to substantiating that claim, and Russian objections have themselves grown steadily more strident.⁹³

But as with NATO enlargement, there is little evidence to suggest that the Russian public is concerned about the issue. The State Department's own Office of Research reported on the basis of opinion sampling as recently as February 2000, after years of heated official controversy: "An overwhelming majority of Russians have heard or read little (31%) or nothing (55%) about American proposals to modify the ABM Treaty to permit the U.S. to install a limited missile defense. Only 5 percent have heard or read at least a fair amount about it."⁹⁴

On the defensive after Republicans swept the 1994 legislative elections on a platform endorsing vigorous pursuit of a national missile defense, the Clinton administration vetoed the Missile Defense Act of 1995--part of the Contract With America--and sought to make its case for delay. To this end, the administration produced the now-notorious National Intelligence Estimate, "Emerging Missile Threats to North America During the Next 15 Years." The report predicted that "no country, other than the major declared nuclear powers, will develop or otherwise acquire a ballistic missile in the next fifteen years that could threaten the contiguous 48 states and Canada." The report particularly deprecated the possibility of North Korea developing a "longer range operational ICBM."⁹⁵

The National Intelligence Estimate was immediately subjected to a firestorm of criticism for downplaying the potential impact of outside assistance--including direct sales of missiles--to regimes developing ballistic missiles. It was similarly criticized for minimizing the impact of space launch vehicle development on missile proliferation, and for excluding missile threats to Alaska and Hawaii from the category of threats to the United States. Not only was the report promptly controverted by the General Accounting Office,⁹⁶ it was authoritatively debunked in the July 15, 1998, report of the bipartisan Rumsfeld Commission.

The Rumsfeld Commission had been chartered by Congress to consider the same issues covered in the National Intelligence Estimate. It concluded that the United States "might have little or no warning before operational deployment" of a ballistic missile by a hostile Third World country.⁹⁷ On August 31,

1998, just a month and a half after the Rumsfeld Commission's report, North Korea fired a three-stage rocket over Japan, ending as conclusively as possible this phase of the debate.

The Clinton administration had, however, managed to buy three years' delay in the debate over deployment of a national missile defense. In the interval, President Clinton secured the 1997 Russian-American protocols to the ABM Treaty, which were intended to render the creation of a robust theater missile defense or national missile defense both practically and legally impossible. First, the Clinton administration significantly broadened the coverage of the ABM Treaty by "insist[ing]," as former Clinton CIA Director Woolsey put it, that "Russia, Ukraine, Belarus, and Kazakhstan [were] the four ABM Treaty successors to the USSR."

[T]he administration and the Russians have joined forces against the U.S. Senate. ... Since the execrable [Lukashenka] regime in Belarus is the corrupt partner of the most unreconstructed parts of the old Soviet military-industrial complex, it (and they) would have a veto over any ABM Treaty amendments.⁹⁸

In early 1996, shortly after the issuance of its National Intelligence Estimate, the Defense Department announced that it would not be able to meet the operational dates mandated by Congress for two promising theater missile defense systems, Navy Upper Tier and theater high-altitude area defense. And in 1997, a further protocol on "demarcation" to limit the effectiveness of any theater missile defense system was signed by Russia at the Clinton administration's urgent insistence. It lobotomized some of the most promising theater missile defense technologies to ensure that they could not assist in a national missile defense.

The protocols set the now-familiar pattern of Clinton administration policy: attempting to curry favor with Russia by delaying deployment of American missile defenses and eviscerating their effectiveness. As the next step in this process, the Clinton administration let it be known that at the June 2000 Moscow summit with Putin the president would seek a "grand bargain": a START III agreement drastically cutting U.S. and Russian warheads, and a U.S.-Russian agreement to amend the ABM Treaty to permit only a very limited U.S. national missile defense while continuing to bar more promising forms of missile defenses.

The President and Vice President Gore thereby sought to achieve both their policy goals and their political goals. From a policy standpoint they would perpetuate the obsolete ABM Treaty, seek security through new arms control agreements, and outlaw precisely the types of missile defenses that Congress has pursued since 1994. From a political standpoint, they could expect a spectacular signing ceremony in Moscow, and a subsequent patriotic Rose Garden ceremony announcing that a single-site national missile defense system would be built by a date certain on American soil. Both of these ceremonies would come in time for the November 2000 election. As the *Washington Post* reported on March 30, 2000:

Sen. Joseph Biden, ranking Democrat on the Foreign Relations Committee, said yesterday that President Clinton "is absolutely going full-bore" to reach an agreement with Russia on modifying the ABM Treaty so the United States can go ahead with a limited missile defense system. Clinton's plan, Biden told reporters, "is to get the limited system locked down in a deal with Putin" in order to block Republicans from pushing forward with a broader, full-scale, national ABM system.⁹⁹

Though it may have been brilliantly manipulative in the realm of domestic politics, the administration proposal was hopelessly flawed from the perspective of national security. Former Clinton CIA Director

James Woolsey recently called it:

a school-uniform program for national defense: it does almost nothing to deal with the basic problem, but it may at least get the president some credit for trying. But unlike school uniforms, which at least don't undercut the cause of education, this approach to missile defense does undercut its ostensible goal by impeding our efforts to deal with our growing vulnerability to rogue-state missiles. ... [T]he administration has purposely designed vulnerabilities into its own system in order to assure the Russians that they can penetrate it with ease.¹⁰⁰

But the rot in U.S. relations with Russia was by then considerably too far along for Moscow to accept the Clinton proposal, however bad a bargain it was for the United States. At the end of eight years of a Clinton policy explicitly designed to cater to Russian official and popular opinion, the administration had the support of neither. Tellingly, the PRC and Russia had already cooperated in sponsoring an overwhelmingly successful U.N. General Assembly Resolution calling for preservation of the ABM Treaty, and implicitly criticizing U.S. efforts to amend it.¹⁰¹

The striking suspicion of American motives held by officials at the highest levels of the Russian government was graphically displayed in a June 23, 2000, interview given by Russian Defense Minister Marshal Igor Sergeev. Sergeev asserted that:

[T]he true reasons for deploying the U.S. National Missile Defense do not lie in imaginary threats from certain pariah countries. Apparently, some people in the United States are in the grip of the temptation to acquire strategic dominance by means of increasing the technological gulf between them and the rest of the world and creating exceptional conditions of invulnerability, that is, implementing the forgotten doctrine of Fortress America.

At the same time the possibility is not ruled out that some people want to drag our country into a new arms race so as to retard Russia's economic development.

Furthermore, in my opinion some people in the United States are under the illusion that by deploying an NMD system capable of intercepting a few hundred strategic missile warheads and reducing the number of warheads and delivery vehicles as a result of the accords under START III and subsequent treaties, it is possible to acquire the potential to destroy Russia's strategic nuclear potential as a result of a pre-emptive strike and the interception of those Russian missiles and warheads that would remain for a retaliatory strike. ...

[W]e regard the deployment of NMD as only the first step toward the future emergence of a multifunctional global system for combating all types of ... targets. This comprehensive defense system will be directed first and foremost against the deterrent potential of the Russian Federation and the People's Republic of China. Russian Defense Ministry experts are in no doubt about this.¹⁰²

At the June 2000 Moscow Summit, President Putin signed a Joint Statement of Principles with President Clinton which acknowledged that the international community faces "a dangerous and growing threat of proliferation of weapons of mass destruction and their means of delivery, including missiles and missile technologies."¹⁰³ But as with other ambiguous Clinton administration statements, Russia inferred a vastly different meaning from these words. Just one week after the Joint Statement of Principles was issued, President Putin told the German newspaper *Welt am Sonntag* that "we are now convinced that the

missile threat from so-called 'problem countries' in the Middle East or in the Asian region, to which the United States refers, does fundamentally not exist, neither today nor in the foreseeable future."¹⁰⁴

Throughout his subsequent European trip, Putin attempted to use national missile defense and the ABM Treaty debate to drive wedges between the U.S. and NATO Europe, reviving Soviet-era diplomatic tactics little seen since the Cold War.

Colonel-General Valery Manilov, the Russian Deputy Chief of Staff, likewise flatly asserted on June 23, 2000, that "in the foreseeable future, 10 or 15 years, there is no threat to the United States from North Korea, or from Iran or Iraq."¹⁰⁵ On June 30, 2000, Maj. Gen. Ivashov, head of the Ministry of Defense's Department of International Cooperation, wrote in the official armed forces journal *Krasnaya Zvezda* [Red Star] that American concerns about rogue states' missile capabilities were "fairy tales," based on an analysis of their technological capabilities that ignored their likely motivations.¹⁰⁶ And Foreign Minister Ivanov wrote in *Foreign Affairs* that "none of the 'problem states,' as they are now referred to in the West, are likely to acquire missiles capable of reaching the United States in the foreseeable future."¹⁰⁷

Russia's revised *Foreign Policy Concept*, approved by President Putin on June 28, 2000, states flatly that:

Russia shall seek preservation and observance of the 1972 Treaty on the Limitation of Anti-Ballistic Missile Systems--the cornerstone of strategic stability. The implementation of the plans of the United States to create a national missile defense system will inevitably compel the Russian Federation to adopt adequate measures for maintaining its national security at a proper level.¹⁰⁸

Most strikingly, the Joint Statements issued by President Jiang Zemin of the People's Republic of China and President Putin during the July 17-19, 2000, summit in Beijing categorically repudiate the idea that America is facing a ballistic missile threat. The statements bluntly threaten a return to a Cold War if the United States deploys a national missile defense. The security documents issued at this summit are the most explicitly anti-American to date, and represent an across-the-board repudiation of American positions:

The 1972 ABM Treaty remains the cornerstone of global strategic stability and international security. ... It is of vital importance to maintain and strictly observe ABM. ... China and Russia believe that the nature of NMD [national missile defense] is to seek unilateral military and security advantages, which will pose the most grave adverse consequences not only to the national security of Russia, China, and other countries, but also to the security of the United States itself and international strategic stability. ...

The damage wrought by ABM will trigger a new arms race and lead to an about-face in the positive trend that appeared in world politics after the end of the Cold War. ... Analysis of the international situation shows that the demand of a certain nation to amend ABM on the pretext of missile threat is totally unjustified. The proposal to revise ABM is actually a ruse to cover its attempt to violate ABM.¹⁰⁹

In addition, the summit's Joint Statement endorses Beijing's opposition to theater missile defense for Taiwan, and for Northeast Asia as well. And it takes pains to distinguish Moscow's proposal for a Russian-European cooperative theater missile defense system. The Joint Statement thereby finesses Beijing's concern that the Russian theater missile defense proposal could be broadened to embrace

defense against the PRC's missile forces, and reinforces the impression that the Russian proposal was more an anti-American wedge-driving exercise than a constructive effort to reach a compromise on the ballistic missile threat. In the words of the joint Russia-PRC statement:

A non-strategic missile defense program and international cooperation in such areas, which is not prohibited by ABM, should not undermine security interests of other countries, not lead to the establishment of any closed military or political bloc, or threaten global and regional stability and security. China and Russia are deeply concerned that a certain country in the Asia-Pacific region might deploy any such non-strategic missile defense system, and steadfastly oppose this.

The incorporation of Taiwan into any foreign missile defense system is unacceptable. ...

China and Russia call on the international community to heed continuously the activities of a certain country to develop a missile defense system, which is detrimental to global strategic balance and stability, and to do what is necessary to prevent such a dangerous situation from continuing. ...

Based on the strategic partnership featured by equality and trust, China and Russia will continue their close cooperation on these issues.¹¹⁰

President Putin's July 2000 summit with North Korean dictator Kim Jong-Il revealed a similar hostility to American policy and interests in the area of missile defense. The "Democratic People's Republic of Korea-Russia Joint Declaration" issued at the Pyongyang summit recites "the DPRK and Russia view that it is totally groundless ... that the so-called missile threat from some countries is used as an excuse to justify the plan to amend the 1972 ABM Treaty," which is described as "a cornerstone to strategic stability and a basis for further reducing strategic offensive weapons." Both governments likewise stated that "deploying a bloc-style closed Theater Missile Defense system in Asia and the Pacific could seriously destroy regional stability and security."¹¹¹

Most controversially, Putin and Kim Jong-Il separately broached a scheme that would in essence create an "Agreed Framework" for North Korea's missile program--embarrassingly for the Clinton administration, a replica of the 1994 arrangement it brokered whereby the United States, South Korea, and Japan would in essence bribe the North Korean dictatorship to suspend its nuclear program. Pursuant to this agreement, the North Korean dictatorship, arguably the worst human rights violator on earth, has become the largest recipient of U.S. aid in East Asia--and continues its program of nuclear and missile development.

Although Russian officials have claimed that under their proposal North Korea might be forced to use launch facilities and rockets in third countries, the Kim Jong-Il government has refused to repeat this reassurance.¹¹² Moreover, the notion that the North Korean dictatorship is genuinely interested in peaceful scientific activities in outer space, or that such a desperately poor government should be pursuing such an expensive discretionary expense, is grotesque. The Clinton administration, however, has accepted such sophistries from North Korea before, as illustrated by its proposal of the 1994 Agreed Framework based on the premise that North Korea was building nuclear reactors only to generate electricity.

Even an offer by Pyongyang for an "Agreed Framework" to forbear in its pursuit of missile developments would not necessarily include a promise not to sell missiles and missile technology abroad. Given Pyongyang's propensity to demand payment for the same concessions repeatedly, this is

hardly a hypothetical risk.¹¹³ Yet despite the manifest implausibility of the offer from Pyongyang and Moscow, the Clinton administration has allowed itself to be put on the defensive internationally by the initiative--until Kim Jong-Il similarly embarrassed Putin by claiming that his offer was only meant as a joke.¹¹⁴

In almost all material respects, the Clinton administration's bungling of U.S. missile defense deployment parallels its bungling of NATO enlargement. In each case, the Clinton administration let slip the best opportunity to cement U.S.-Russian agreement on a major initiative. In the case of both NATO enlargement and national missile defense, subsequent events drove the administration to endorse the policy belatedly and half-heartedly. In both cases, temporizing and delaying hardened rather than mitigated Russian opposition. And in both cases, the administration's policy secured the worst possible outcome: it severely compromised the potential benefits to the United States, while ensuring that the issue would indefinitely remain an irritant in U.S.-Russia relations.

Ersatz Missile Defense: The Clinton "Detargeting Agreement"

The Clinton administration's superficial approach to missile defense is perfectly illustrated by its celebrated "Detargeting Agreement" with Russia.

In January 1994, Presidents Clinton and Yeltsin signed a Detargeting Agreement that Clinton hailed as reducing the nuclear threat to America by ensuring that no Russian missile was aimed at a U.S. target.¹¹⁵ Subsequently, on more than 147 separate occasions, President Clinton, Vice President Gore, members of the cabinet, and other senior administration officials have touted the agreement as a boon for U.S. national security.¹¹⁶ For example, on August 26, 1996, in a speech in Toledo, Ohio, the president proclaimed that "... for the first time since the dawn of the nuclear age, on this night, this beautiful night, there is not a single nuclear missile pointed at a child in the United States of America."¹¹⁷

The emptiness of the Clinton administration's rhetoric was made abundantly clear in hearings held by the House National Security Committee in 1997. At a hearing of the Military Research and Development Subcommittee, Dr. Bruce Blair, a Brookings Institution expert on nuclear security policy, testified of the detargeting agreement and associated Russian and American actions:

Neither removed the wartime aim points from [Russian] missiles portfolios of preprogrammed targets. Neither lengthened the amount of time needed to initiate a deliberate missile strike. And the risk and consequences of an accidental or unauthorized launch were not significantly affected by their pledge [to detarget].¹¹⁸

Because the detargeting agreement contains no verification provisions, there is to this day no reliable evidence that the Russian nuclear missiles were ever detargeted.¹¹⁹

Even assuming that the detargeting has been carried out, the benefits for U.S. national security are minimal. First, the Russian General Staff has publicly stated that it would take at most a few minutes to retarget the missiles on their previous targets.¹²⁰ Under the detargeting agreement Russian missiles are to be set on a "zero flight plan;" however, because the missiles can store multiple flight plans, and the Russian military can quickly switch between these flight plans, the detargeting presents little impediment to a deliberate launch.¹²¹

The Clinton administration has also argued that while a deliberate launch would not be impeded, the danger from an accidental or unauthorized launch is reduced by detargeting. However, in the event of an accidental or unauthorized launch, a Russian missile set on a "zero flight plan" would snap back to its wartime flight path and strike one of the real target points stored in the missile's database. Conversely, American missiles that have been detargeted would fall into the sea in the event of accidental or unauthorized launch.¹²²

The Russian government has been forthright about the ephemeral benefits of the detargeting agreement. In a 1995 interview, a senior adviser in the Ministry of Defense said that, "When it was decided to detarget missiles, the decision was mostly of a political, propaganda character."¹²³

Rather than being honest with the American people, the Clinton administration has used the detargeting agreement for just such a "political, propaganda" purpose in an effort to distract attention from the absence of a more reliable missile defense for the United States.

Clinton's Rootless Russia Policy

One of the standard criticisms of the Clinton administration's Russia policy is that it has failed to cultivate a broad range of support within Russia. It has focused on Moscow in preference to the regions, on government in preference to private actors, within government on the executive branch in preference to the legislature, and within the executive branch on a handful of individuals in preference to a broader spectrum of officials and bodies. This lazy diplomatic shortcut has left American policy and prestige in Russia a hostage to the reputation, honesty, and ability of as few as five or six Russian officials--Chubais, Gaidar, Chernomyrdin, Yeltsin, and a handful of others.

Less often noted is the parallel to the Clinton administration's approach to pursuing its policies in the U.S. Congress. Its tactics at home have similarly produced a narrowly based policy bereft of public and congressional understanding and support. At home, as well as in Russia, the administration eschewed working with the leaders of the legislative branch and doing the hard work of either cultivating support or compromising differences. As a result, the administration's policies have won understanding and support in neither party.

The Clinton approach at its most self-defeating was on display in the negotiation of the 1997 New York Protocols to the ABM Treaty, and the ensuing refusal to submit them to the Senate for ratification. The Protocols effectively represented a collaboration by the American executive branch with foreign governments--including the contemptible Lukashenka regime ruling Belarus--against the American legislative branch.

The president and vice president were well aware that the demarcation and multilateralization protocols were utterly unacceptable to Congress in general and to the Senate in particular. Instead of seeking either to persuade the Congress or to reach an honorable accommodation of the differences, the administration collaborated with foreign governments to circumvent the American legislature and create "facts on the ground" that would make it impossible for Congress to execute its constitutional role.

The Russian government obliged this year. When the State Duma conditioned its ratification of START II on Senate ratification of the 1997 Protocols, it completed the work of the Clinton administration, which had deliberately failed to submit the 1997 Protocols to the Senate for its advice and consent for

three years. When Under Secretary of State Pickering testified before the Speaker's Advisory Group on May 10, 2000, he said that it was "inopportune" to submit the protocols to the Senate, because they were integrally related to START III and issues of national missile defense. He gave no explanation of why it was "opportune" for the President to sign the protocols, but not for the Senate to have the opportunity to ratify them.

By acquiescing--indeed, encouraging--the Russian Duma's linking of START II to the protocols, the Clinton administration has jeopardized the historic reductions in offensive nuclear forces that President Bush had achieved in cooperation with a Democratic Congress--all in the interest of coercing Congress to abdicate its long-held views on missile defense.

The Clinton administration's defiance of the Senate's constitutional role is not unique to this episode, or even its Russia policy generally.¹²⁴ From the beginning of the Clinton administration, consultation with Congress on Russia policy has consisted of little more than the annual budget presentation. Requests by the House International Relations Committee for documents bearing directly on the failure of the Clinton administration Russia policy have gone unanswered; senior administration policy makers such as Strobe Talbott have routinely been "unavailable" to the committees of jurisdiction. Talbott refused to meet with the leadership of the six committees of jurisdiction that comprise this Speaker's Advisory Group on Russia.¹²⁵

In July 2000, the Clinton administration ignored strenuous objections by the Senate and House committees of jurisdiction and leadership to its policy on rescheduling Russian debt.¹²⁶ As a result, it was strongly rebuked on July 19, 2000, by an overwhelming 275-146 vote for a resolution approving a bar on such restructuring until the President certifies an end to Russian use of a spy facility at Lourdes, Cuba. The passage by enormous bipartisan majorities of successive Russia-Iran missile proliferation bills in the face of veto threats similarly underscores the administration's credibility gap.¹²⁷

In the United States as in Russia, the self-defeating nature of the Clinton administration policy process has not dissuaded the administration from pursuing it to the end: the last major policy gambit of the administration, the so-called "grand bargain" compromise with Russia that the President sought to unveil at the Moscow summit, was rejected by the Russian government in part because it was clear that Clinton and Gore had done nothing to secure congressional support for it.

Conclusion: A Cold Peace

Russian-American relations now bear a troubling resemblance to the pre-*perestroika* Cold War. In response to American proposals to amend the ABM Treaty, the Russian government has now announced that if the United States does not accede to its position, it will withdraw not only from strategic arms agreements but also from the 1987 Intermediate-Range Nuclear Forces (INF) Treaty, which banned intermediate-range missiles in Europe. Clinton's policy has brought U.S.-Russia relations full circle, returning to the last and most heated Soviet-American controversy of the Cold War.

In the meantime, the Russian government seeks to weaken ties between the United States and NATO Europe, reviving Soviet-era proposals to substitute a pan-European collective security structure for the current alliance-based security system. And Moscow has threatened to deploy multiple warheads on Topol intercontinental ballistic missiles in violation of START II as part of its "asymmetrical" response to a U.S. withdrawal from the ABM Treaty.¹²⁸

Russia is continuing and possibly intensifying the proliferation that has made a U.S. national missile defense essential. As recently as June 2000, just weeks before President Putin's visit to Pyongyang with its ostensible purpose of ending North Korea's missile program, missile component companies in Russia and Uzbekistan were reportedly collaborating to sell North Korea a special aluminum alloy, laser gyroscopes used in missile guidance, and connectors and relays used in missile electronics.¹²⁹

The Russian government is accelerating its rapprochement with the rogue's gallery of former client states that the Soviet Union supported during the Cold War--not only reviving the Soviet intelligence relationship with Castro based on the listening post at Lourdes, Cuba, but also working with Beijing to renew both political and military ties with the pariah regimes in Iraq,¹³⁰ North Korea, and Libya,¹³¹ and cultivating the Milosevic dictatorship in Belgrade. A more troubling contrast to the atmosphere of the early 1990s could hardly be imagined.

CHAPTER 11

'THE ENEMY OF MY ENEMY IS MY FRIEND': RUSSIA EMERGES AS A STRATEGIC PARTNER OF THE PEOPLE'S REPUBLIC OF CHINA



A REAL 'STRATEGIC PARTNERSHIP': Russian President Vladimir Putin (left) and Chinese President Jiang Zemin toast each other in Beijing's Great Hall of the People, July 18, 2000. Although the Clinton administration has long boasted of its "strategic partnership" with Russia, the Russian government unmistakably disavowed any such relationship in its authoritative Foreign Policy Concept, approved by President Putin in June 2000. The Foreign Policy Concept flatly states that "certain plans relating to establishing new, equitable, and mutually advantageous partnership relations of Russia with the rest of the world"-plans embodied in the 1993 version of the Concept approved as President Clinton was taking office-"have not been justified." To challenge America's dominance, Russia today cultivates its strategic partnership with the People's Republic of China-a partnership explicitly targeting American policies and interests around the globe, and founded on increasing both the PRC's and Russia's military capabilities against the United States. This is in stark contrast to Russia's explicitly seeking an alliance and missile defense cooperation with Washington in 1992. AP Photo/Greg Baker

American foreign policy in the 1990s pursued one foreign policy toward Russia and another toward China; neither has been considered in light of the other, and neither has proven successful.

Through most of the past seven years, the Clinton administration has seemed almost bent on creating an anti-American community of interest between Moscow and Beijing.

Charles Hill, *Blundering Toward a Second Cold War?*

Although the Clinton administration has long boasted of its "strategic partnership" with Russia, the Russian government unmistakably disavowed any such relationship in its authoritative *Foreign Policy Concept*, approved by President Putin in June 2000. The *Foreign Policy Concept* flatly states that "certain plans relating to establishing new, equitable, and mutually advantageous partnership relations of Russia with the rest of the world"--plans embodied in the 1993 version of the *Concept* approved as President Clinton was taking office--"have not been justified."

Instead, the June 2000 *Concept* lists first among the threats to Russia "a growing trend towards the establishment of a unipolar structure of the world with the economic and power domination of the United States." To challenge America's dominance, Russia today cultivates its strategic partnership with the People's Republic of China--a partnership explicitly targeting American policies and interests around the globe, and founded on increasing both the PRC's and Russia's military capabilities against the United States. This is in stark contrast to Russia's explicitly seeking an alliance and missile defense cooperation with Washington in 1992.

Russia and the PRC have rapidly increased the level of their cooperation in opposing American plans for national and theater missile defense, NATO enlargement, U.S. security cooperation with Taiwan, and U.S. opposition to the North Korean missile program.

Even more troubling is the dramatically-increasing scale and sophistication of Russian arms and technology transfers to the PRC: *Sovremenny*-class destroyers equipped with Moskit surface-to-surface missiles, state-of-the-art weapons systems specifically designed to destroy U.S. aircraft carriers; ultra-quiet *Kilo*-class diesel submarines; Su-30 long-range attack aircraft and MiG-31 long-range fighter-interceptors; AWACS radar systems; T-80U tanks; state-of-the-art Russian surface-to-air missiles; and rocket engines, as well as many other weapons systems and technologies. Negotiations are reportedly underway for still more sophisticated weapons systems and technology. There are also reports of far-reaching Russian military commitments to the PRC in the event of hostilities over Taiwan.

After over \$20 billion in U.S. assistance and eight years of mismanagement by the Clinton administration, the U.S.-Russian relationship is in tatters, characterized by deep and growing hostility and divergent perceptions of international realities and intentions. The Sino-Russian relationship, by contrast, has grown steadily stronger, and has steadily assumed a more overtly anti-American aspect.

Because of Russia's current and future importance, the consequences of this failure are difficult to overstate. They almost certainly exceed the consequences of the American defeat in Vietnam, and the fall of the pro-American government in Iran. To find a foreign policy failure of comparable scope and

significance, it would be necessary to imagine that after eight years of American effort and billions of dollars of Marshall Plan aid, public opinion in Western Europe had become solidly anti-American, and Western European governments were vigorously collaborating in a "strategic partnership" directed against the United States.

First Principles

Relations between Russia and the People's Republic of China and the triangular relationship those countries share with the United States are a critical element in U.S.-Russia policy.

Consolidation of a monolithic Sino-Soviet alliance after Mao Zedong's victory in 1949 was regarded in the United States as one of the gravest strategic reverses ever suffered by the United States, and was directly responsible for the Korean War. Dissolution of the Sino-Soviet alliance bought invaluable breathing room for freedom in Asia and Europe during the 1960s. Particularly after President Nixon's opening to China in 1970, the United States made it a priority to prevent Sino-Soviet strategic collaboration against the West throughout the remainder of the Cold War. America's success in the 1970s and 1980s in restoring a strategic equilibrium in Eurasia through such "triangular diplomacy" was an historic triumph for the United States.

In light of current Russian suspicions about American policy, it is crucial to specify that even at the height of the Cold War this policy was defensive in nature: neither the United States nor its allies desired to dominate Eurasia, either directly or by fostering hostility between the Soviet Union and the PRC on the principle of divide and conquer. Neither has America, then or now, maintained any territorial claims on Russia or China. Rather, long-standing U.S. policy has been designed to prevent any great power from dominating Eurasia, either alone or in combination. As former Secretary of State Henry Kissinger has written:

Geopolitically, America is an island off the shores of the large landmass of Eurasia, whose resources and population far exceed those of the United States. The domination by a single power of either of Eurasia's two principal spheres--Europe or Asia--remains a good definition of strategic danger for America, Cold War or no Cold War.¹

The consistency of this approach can be seen in American policy during the mid-20th century Chinese civil war, when the United States sought to avert the victory of Chinese Communists at that time closely allied with the Soviet Union; in American policy before and during the Second World War, when the United States fought to prevent Axis domination of Eurasia; and as far back as America's Far Eastern policy at the close of the 19th century, when the United States sought to preserve Chinese territorial integrity and forestall the efforts of any of the great powers to dominate China either economically or politically.²

In the 21st century, in the aftermath of the Cold War, the United States continues to have a strong interest in cordial relations between Russia and China. War between those great powers would affect critical American allies throughout the Asia-Pacific region, tens of thousands of U.S. troops in the region, and global security and prosperity. Even continued military tension between them would divert the energies of both societies away from economic modernization, and would strengthen the most retrograde political forces in each country.³

The end of the Cold War and the dissolution of the Soviet Union fundamentally altered the dynamic of both NATO's and China's relations with Moscow, by ending the direct Soviet military threat to both. But it did not alter the critical imperative of preventing great power dominance over Eurasia, particularly if such dominance is exerted in the form of a strategic partnership directed against American interests.

In pursuing such a policy the United States enjoys several inherent advantages, including more extensive economic and cultural ties with Russia and China than either of those nations shares with the other. Moreover, although the United States projects its power in both the Pacific and Europe, it is not a territorial sovereign anywhere on the Eurasian landmass. America has thereby avoided territorial conflicts such as the centuries-old disputes between Moscow and Beijing that have frequently arisen along their 2,200-mile border.

To these natural advantages must be added the extraordinarily favorable strategic environment in East Asia that the Clinton administration inherited in January 1993. There existed a genuine *détente* between Russia and the People's Republic of China that plainly did not extend to military or strategic cooperation against the United States, or its friends and allies. The acute military tension between the Soviet Union and the PRC, which at its height had led to military clashes along the Ussuri River and the Xinjiang frontier in 1969, and large-scale Soviet military exercises along the PRC's northern border during the 1979 conflict between China and Soviet client Vietnam, had ended. The new Russian Federation had largely removed the offensive military threat that the Soviet Union had posed to the PRC, and that had overshadowed the relationship since the Sino-Soviet split in 1960.⁴

The easing of military tensions between the two countries had begun even before Russia's independence. In 1987, Gorbachev announced a five-year phase-out of the Soviet military presence in Mongolia, which had long been regarded by the PRC government as acutely threatening. In April 1988, the Geneva Accords provided for withdrawal of Soviet troops from Afghanistan by 1989, relieving a source of anxiety beyond the PRC's northwestern border. In December 1988, Gorbachev announced at the U.N. a reduction in Soviet conventional forces of 500,000 troops, including 120,000 troops deployed against the PRC. Between 1989 and December 1992, eight rounds of force-reduction talks led to an agreement to reduce troops and offensive weaponry in a zone extending 60 miles on either side of the border.

Agreements in May 1991 and September 1994 delineated virtually the entire Sino-Russian border. A Joint Declaration signed during Yeltsin's December 1992 visit to Beijing, renouncing the use of force against each other, and forswearing any "military and political alliances directed against the other party, or ... detrimental to the state sovereignty and security interests of the other party,"⁵ formally normalized the cross-border relationship.

Russian arms sales to the PRC, which began with the June 1990 Moscow visit of Gen. Liu Huaqing, Vice Chairman of the PRC's Central Military Commission, were strictly limited by Russia's concerns over enhancing the PRC's military posture vis-à-vis Russia itself. In 1992, Russian arms sales contracts with the PRC were less than \$2 billion.⁶ Despite President Yeltsin's claim at the December 1992 Beijing summit that Russia would sell the PRC "the most sophisticated armaments and weapons,"⁷ Russian arms sales to the PRC during this period were subject to comparatively strict qualitative controls. The sales appear to have been predominantly motivated by economic rather than strategic considerations, and were part of a broader effort to transform the former Soviet Union's unprofitable, policy-based arms transfer program into a profitable, economically-motivated element of Russian trade.

By the end of this process, in December 1992, the triangular Washington-Beijing-Moscow relationship was as favorable to the United States, the West, and international peace and security as it ever has been. Cordial, normalized relations between Moscow and Beijing had been established for the first time in

three decades, but not at the expense of the United States or its allies and friends.

Indeed, Moscow clearly sought much closer military and political ties with the West than with the PRC, as outlined in Chapter 2.8 The PRC's support for the August 1991 coup against Gorbachev, contrasted with American opposition to the plotters, remained a vivid memory in Moscow for several years.

The Inverted Triangle: The Advent of Sino-Russian Cooperation Against the United States

By 1999, U.S. relations with both Moscow and Beijing had changed dramatically, reaching their lowest point in many years. 9 In both capitals thousands of people took part in violent anti-American demonstrations in front of the respective U.S. Embassies--a poignant contrast with events a few years before, when thousands of Russians had paraded through Moscow with American flags, and tens of thousands of residents of Beijing had gathered in Tiananmen Square around the American-inspired statue of the Goddess of Democracy.

The contrast between the excitement and enthusiasm with which a joint session of Congress greeted President Yeltsin in June 17, 1992, and the indifference and hostility shown by the Duma toward President Clinton on June 5, 2000, is similarly dramatic. This was the scene in Washington on June 17, 1992:

Yeltsin's ringing denunciation of communism and call for U.S. assistance in rebuilding Russia's shattered economy drew one of the most enthusiastic responses ever seen in Congress for a foreign leader. Billed in advance as the political highlight of the first formal U.S.-Russian summit since the collapse of communism, the speech was interrupted by nine standing ovations and chants of "Boris, Boris" from the packed House chamber.¹⁰

Eight years later almost to the day, Clinton was in Moscow to address the Duma. He was received with a mixture of indifference, hostility, and contempt:

When Mr. Clinton addressed the Duma ... only about one-third of the legislators bothered to show up. The rest of the audience was composed of staffers and others dragooned into filling the seats.¹¹

Most of the applause for Clinton's speech came from the large entourage of American officials who followed the president into the chamber, to the chagrin of the Russian audience. Both inside and outside the chamber, the president was jeered and insulted.¹²

A few weeks later, President Putin was warmly received in Beijing, reviewing goose-stepping soldiers of the People's Liberation Army in the square where the Goddess of Democracy had once stood.

1993-95: From Sino-Russian Détente to 'Partnership'

China is the most important state for us.

President Yeltsin, remarks at a foreign policy meeting in the Kremlin, June 1995 13

Russia's turn toward the PRC, like its growing hostility toward Washington, was rooted in the setbacks experienced by American-sponsored "reforms" and "reformers" during this period. The progressive discrediting of the Clinton administration economic policies invested the "Chinese model of development" and the PRC leadership with new prestige. As early as December 1992, Yeltsin himself had praised "the Chinese tactic of reform" during his visit to Beijing,¹⁴ and this sort of praise became steadily louder and more ubiquitous as Russia's economic turmoil showed no sign of ending.

Just as Russian "westernizers" who favored domestic reform tended toward a relatively pro-Western foreign policy, so too the opponents of democracy and free enterprise at home tended to favor an orientation toward American rivals or enemies abroad. The most powerful of these by far was the Communist government in Beijing.¹⁵

Several witnesses who testified before the Advisory Group observed another factor that encouraged Moscow's turn toward Beijing: the perception among the Russian elite that while the PRC had adopted a far more anti-American foreign policy than Russia, it was benefiting from far greater trade and investment. This perception intensified after the Clinton administration's well-publicized 1994 decision to reverse its earlier linkage of trade and human rights. Thereafter, many Russians believed, the Clinton administration directed more high-level attention to the PRC, accorded it priority over Russia in trade negotiations and admission to the World Trade Organization, and steadily increased the disparity in American economic ties.

The perceived contrast between America's aggressive economic engagement with the PRC and its virtual disengagement from Russia strengthened those in Russia--and in the PRC--who argued that a harder line against the United States in the foreign policy and security spheres does not hurt in the sphere of economics and trade, and possibly might help.¹⁶

Finally, the protracted failure of the Russian economy made foreign sales of weapons and military technology increasingly vital for a whole range of actors--from the Russian government as a whole, the armed forces, and the military-industrial complex down to individual ministries, industries, factories, military units, and research institutions, and even to individual bureaucrats, company officials, officers, soldiers, and scientists. The PRC--"one of the most solvent nations in the world," as Yeltsin remarked at the December 1992 Sino-Russian summit in Beijing¹⁷--was a potential key customer for these highly motivated sellers.¹⁸

The change in tone of Sino-Russian relations was apparent even before the September 1994 Moscow summit between Yeltsin and Jiang.¹⁹ The Sino-Russian Joint Statement issued there described the relationship between Russia and the PRC as "a constructive partnership." The same statement pledged opposition to "hegemony, power politics, and the establishment of antagonistic political, military, and economic blocs"--a thinly veiled reference to the United States that would become steadily more strident at each successive Sino-Russian meeting.

By the May 1995 summit meeting, President Jiang would announce that Russia and the PRC had "decided to establish and develop a constructive Sino-Russian partnership that would strategically gear

us toward the next century."²⁰ From then on, the formulation "strategic partnership" would be used to describe the relationship.

1996-98: Solidifying the Russian-PRC 'Strategic Partnership'

[T]he communique [issued by Yeltsin and Jiang in Shanghai in April 1996] represents nothing less than a declaration of independence by both Moscow and Beijing from the strategic triangle that had evolved in the two decades since Richard Nixon's opening to China. A basic premise of that triangle was that the United States place itself closer to both Beijing and Moscow than either was to the other, achieving a strong bargaining position vis-à-vis each. This new Shanghai communique symbolizes the demise of that process and a deliberate effort by both China and Russia to reduce America's options in Asia.

Former Secretary of State Henry Kissinger, May 14, 1996²¹

There is no such pair in the world.

President Yeltsin, remarks on Sino-Russian relations at the April 1996 Beijing summit²²

The transition between a limited Sino-Russian détente and the new "strategic partnership" reached a critical juncture in 1996-98, when a number of factors emerged to crystallize a far-reaching change in Moscow's relations with Beijing and Washington. Beijing viewed the replacement of Russian Foreign Minister Andrei Kozyrev by the veteran Communist diplomat Yevgeny Primakov in 1996 as a repudiation of Russia's heretofore "bankrupt pro-Western foreign policy."²³

Chinese and Russian officials ostentatiously paraded the new understanding between Beijing and Moscow at their summit meetings during those years. At the September 1994 summit in Russia, Jiang Zemin had cautiously stated that "[n]either confrontation nor alliance corresponds to the fundamental interests of the two peoples."²⁴ But by the April 1996 summit in Beijing, Russia and the PRC pledged "their resolve to develop a strategic partnership of equality, mutual confidence and mutual coordination toward the 21st century."²⁵

Ironically, the initiative for this characterization came not from the PRC, although the U.S. and the PRC had just endured the March 1996 military confrontation in the Taiwan Strait. Instead, it was the result of the personal initiative of the Clinton administration's partner President Yeltsin--a striking example of the failure of the Clinton troika to capitalize on their personal relationships with the Yeltsin administration, especially given the strenuous efforts the Clinton administration was then making for his re-election.²⁶

At the April 1996 summit, Russia and the PRC also institutionalized semiannual summit meetings, created a new Moscow-Beijing hotline, and pledged to further develop both military exchanges and "cooperation on military technology." While approvingly noting a supposed trend toward a "multipolar" world, the Joint Communiqué also acidly cited the continuation of "[h]egemonism, power politics, and repeated imposition of pressures on other countries," as well as "new manifestations of bloc politics"²⁷--points repeated and embellished in subsequent Sino-Russian statements and documents.

In November 1996, Russian Foreign Minister Primakov stated unequivocally that "[t]he stronger China becomes, the more peace and stability in the region will benefit."²⁸

Their Own Gore-Chernomyrdin Commission

During Premier Li Peng's visit to Moscow from December 26-28, 1996, Russia and the PRC held the first meeting of their own version of the Gore-Chernomyrdin Commission, complete with standing subcommittees devoted to transportation, energy, trade, and economic and scientific cooperation.²⁹ By elaborately duplicating the Gore-Chernomyrdin structure for its relationship with the PRC, the Russian government went out of its way to erase the notion that Washington was its preferred interlocutor. The inaugural meeting of the Commission committed both sides to a highly ambitious--and ultimately unrealistic--target of \$20 billion in trade by 2000.

An extremely public demonstration of the change in Sino-Russian relations played out over the winter of 1996-97. The Russian Defense Minister, Igor Rodionov, who had included the PRC among potentially threatening countries during a military conference of the Commonwealth of Independent States on Christmas Day in 1996,³⁰ was rebuked publicly by both the Russian Foreign Ministry and President Yeltsin's spokesman. In January 1997, Rodionov sent an official message to the Russian armed forces praising Sino-Russian relations, and disavowing his earlier statement.³¹

At the April 1997 Moscow summit, both presidents went to the unusual length of publishing a "Russian-Chinese Joint Declaration on a Multipolar World and the Formation of a New International Order." It reaffirmed that Russian-Chinese relations aimed at "strategic cooperation."³² Although the references to the United States and NATO are characteristically opaque, the declaration is a concise brief against what Moscow and Beijing conceived of as American policy.

Such an explicit itemization of Russian criticisms of the United States should have been viewed as a striking development in a year when the "Dream Team" of westernizing reformers was in power in Moscow,³³ and just one month before Russia and NATO signed the "Founding Act" in Paris.³⁴ But neither the Clinton troika nor the administration as a whole seemed capable of adjusting their policies to fit the rapidly changing situation.

By the time Clinton met Yeltsin at the funereal September 1998 summit, immediately in the wake of Russia's complete economic collapse, the would-be American "strategic partnership" with Moscow had become a hollowed-out shell. The thorough discrediting of the U.S.-inspired Russian economic "reforms" and the now-fundamental U.S.-Russian disagreements over virtually the entire spectrum of major foreign policy issues--Iraq, Iran, the Balkans, and NATO--had left the relationship in tatters. Though the summit documents and statements continued ritually to allude to a Russian-American "partnership,"³⁵ they were unable to paper over explicit disagreements on these topics.³⁶ The disagreements went unresolved, and had no analogues in the burgeoning Sino-Russian partnership.

1999-2000: 'A New Stage of Development' in the Strategic Partnership

Worse was to follow. As NATO military intervention in Kosovo in 1999 sparked a free-fall in U.S. relations with both Russia and the PRC, Russian and Chinese threats and denunciations of the United States that were unprecedented since the Cold War³⁷ were surpassed only by weapons transfers of extraordinary scope and sensitivity from Russia to the PRC.

At the end of NATO negotiations with Milosevic--though not before--Russia cooperated to some extent with NATO. ³⁸ Nonetheless, neither Yeltsin nor Russia's foreign and defense policy makers were prepared to forget Kosovo. Instead, they appear to have concluded that Russia could more safely and appropriately respond half a world away, by strengthening the security relationship with Beijing. The PRC government, outraged by NATO's accidental bombing of Beijing's Embassy in Belgrade, was also thoroughly willing to deepen the "strategic partnership."

During a lengthy visit to Russia in June 1999, General Zhang Wannian, Deputy Chairman of the PRC's Central Military Commission, spoke by telephone with the ailing President Yeltsin and met in Moscow with Prime Minister Stepashin, Defense Minister Sergeyev, and then-FSB head and Security Council Secretary Vladimir Putin. Stepashin told Zhang that his father had been a Soviet military adviser in the PRC: "My father served with the navy and helped build China's armed forces. Now, meeting you, I feel I am continuing my father's cause." Putin told Zhang, "Highest-level ties are developing very fruitfully. ... Russia's and China's interests in the present international circumstances largely coincide."³⁹

Gen. Zhang was given unprecedented access to Russian military facilities. He visited air force and air defense command posts, a Strategic Rocket Forces installation near Novosibirsk, the Pacific Fleet's commanders at Vladivostok, and the commanders of the Far Eastern Military District at Khabarovsk. A Russian Defense Ministry spokesman told the press that during Gen. Zhang's visit to Novosibirsk, he was shown a Topol SS-25 intercontinental ballistic missile and given an explanation of its potential for overcoming the defenses of a "potential foe."⁴⁰

At Vladivostok, Gen. Zhang told the press that Russo-Chinese "military-technical cooperation has the best prospects" among Sino-Russian initiatives. The upcoming summit in the fall, he said, would probably further strengthen such bilateral relations.⁴¹

Gen. Zhang's prediction was amply justified. The PRC-Russia summit in the Kyrgyz capital of Bishkek in August 1999, which also included the Central Asian republics of Kazakhstan, Tajikistan and Kyrgyzstan, was a debacle for United States relations with both the PRC and Russia. Going far beyond earlier formulations, Yeltsin bluntly told the press, "I am in fighting form, ready for battle, especially with Westerners. ... The current summit is taking place in conditions of an aggravated international situation. Some nations are trying to build a world that would be convenient only for them, ignoring that the world is multi-polar."⁴²

Yeltsin and Russia were once again more assertive in denouncing American policy than the PRC itself--a further striking example of the failure of the Clinton administration's reliance on a personal relationship with Yeltsin.⁴³

At the same time, the Sino-Russian commission for economic cooperation, headed by Deputy Premier

Ilya Klebanov, the point-man for Russia's military-industrial complex, was proving itself considerably more potent than the Gore-Stepashin Commission. It was busy preparing a cornucopia of Russian weapons sales for the planned Russian visit to Beijing to meet with Zhu Rongji, Li Peng, and Zhang Wannian.

The Russian delegation included Alexei Ogaryev, head of the Rosvooruzhenie arms-export monopoly, and Yuri Koptev, the head of the Russian Space Agency. President Jiang, newly returned from the Bishkek summit, met the delegation on the final day of their visit. According to Deputy Premier Klebanov, the Russian delegation brought "several new, very serious suggestions, including on military and technological cooperation ... Russia and China are strategic partners."⁴⁴

Col. Gen. Leonid Ivashov, the head of the Defense Ministry's International Cooperation Department and an outspoken critic of Washington and NATO, promised the press that "[m]ilitary cooperation between our two countries will considerably expand in all aspects soon."⁴⁵

Ivashov was as good as his word. Press accounts reported that Presidents Yeltsin and Jiang had already agreed on a \$1 billion purchase of at least two *Akula*-class nuclear-powered attack submarines at the Bishkek Summit.⁴⁶ In Beijing, a \$2 billion contract to purchase Su-30MKK long-range fighters was announced.⁴⁷ At the last Yeltsin-Jiang summit in Beijing in December 1999, the two presidents repeated a litany of anti-American charges, and hailed the "coordination" of their foreign policies in opposition to the American government.⁴⁸ By the end of 1999, CIA Director Tenet was reportedly ordering a "crash effort" to assess Sino-Russian ties.⁴⁹

These developments continued in 2000 under the incoming Putin administration. The large Russian delegation to the July 2000 Beijing summit was a who's who of the Russian military-industrial complex. It included Defense Minister Sergeyev; Foreign Minister Ivanov; Rosvooruzhenie chief Ogaryev; Atomic Energy Minister Yevgeny Adamov; and Deputy Premier Klebanov, the government lead for arms sales. The collective presence of such powerful figures was eloquent testimony to the pervasive military orientation of the Sino-Russian partnership.⁵⁰

The "Beijing Declaration by the People's Republic of China and the Russian Federation" issued at that summit is uncompromising in tone:

China and Russia support in the international arena forces of peace, stability, development, and cooperation, defy hegemonism, power politics and group politics, and oppose attempts to amend the basic principles of international law, to threaten others by force or to interfere in other countries' internal affairs. ...

The further and comprehensive development of economic, trade, scientific and technological, and military-related technological cooperation between China and Russia is vital for the expansion of the Sino-Russian strategic partnership of cooperation based on equality and trust.⁵¹

The July 2000 Sino-Russian summit in Beijing represented, in the words of President Jiang, "a new stage of development" in the strategic partnership between Moscow and Beijing.⁵² It marked the evolution of the Russian-PRC relationship into an explicitly anti-American political and military compact. The summit dispelled rumors that Russia was planning to curtail military technology transfers to the PRC,⁵³ just as it went far toward allaying Beijing's uncertainty over the Russian proposal for cooperation with NATO on theater missile defense research and deployment by making clear that the proposal was not intended to protect either the United States or Northeast Asia. And the summit made explicit that the

core of the Russo-Chinese strategic partnership was now opposition to American interests around the world.



THE TIES THAT BIND: President Putin, right, introduced President Jiang, center, to Russian Defense Minister Igor Sergeyev during a welcoming ceremony in Beijing's Tiananmen Square, July 18, 2000. The two leaders discussed increasing military cooperation and their mutual opposition to U.S. proposals for an anti-missile defense. AP Photo/Sergei Karpukhin, POOL

As with the deterioration in U.S.-Russian relations, the strengthening of the Sino-Russian relationship from 1993 to the present is clearly traceable in the Russian and PRC foreign policy and security doctrines. The January 1993 *Foreign Policy Concept of the Russian Federation* discussion of Asia began with the United States:

For Russia, the time has become objectively ripe for close cooperation with the United States in the Asia-Pacific region, with whom we are today brought together by adherence to singular democratic values and an unconditional interest in stability in the region. It would be expedient for us to share responsibility with the United States for the provision of security in the Asia-Pacific region, to become strategic partners here. For these purposes, we should reorient our military potential in the direction of ensuring regional stability and creating reliable guarantees of common security together with the United States.⁵⁴

The immediately following section on the PRC, by contrast, posited much more distant relations:

A realistic transformation of the nature of relations with China must consider the differences in ideology and the socio-political systems of the two countries, and must also proceed from the principle of no alternative for Russia other than good neighborly intensive and substantial relations with it. In the past, confrontation with the PRC cost the U.S.S.R. (as well as China) much too dearly, and was one of the main reasons for our alienation from the region.⁵⁵

Notably, the 1993 *Concept* stated that "[i]n spheres of military-technical cooperation, we should measure our commercial interests against the task of maintaining stability in the region and *not permitting the*

*re-creation of a situation from the cold war times, when the United States armed Taiwan, while we armed Communist China."*⁵⁶

By contrast, the revised *Foreign Policy Concept of the Russian Federation* issued in June 2000 states that:

The concurrence of the fundamental approaches of Russia and the PRC to the key issues of world politics is one of the basic mainstays of regional and global stability. Russia seeks to develop mutually advantageous cooperation with China in all areas. The main task is, as before, bringing the scale of economic interaction in conformity with the level of political relations.⁵⁷

Russian foreign and security policy doctrine is now virtually coextensive with that of the People's Republic of China. The PRC's July 1998 *White Paper on China's National Defense* stated that

hegemonism and power politics [Moscow's and Beijing's code words for U.S. policy] remain the main source of threats to world peace and stability; Cold War mentality and its influence still have a certain currency, and the enlargement of military blocs and the strengthening of military alliances have added factors of instability to international security; some countries, by relying on their military advantages, pose military threats to other countries, even resorting to armed intervention.⁵⁸

As in the Russian documents, the immediacy and malevolence of the American threat is even more dramatically portrayed by the PRC in 2000. The PRC Foreign Ministry's formal presentations depict a much more threatening international environment, animated by the United States. "China's View on the Development of Multi-polarity" bemoans that while the international situation on the whole has become more relaxed since the end of the Cold War, nonetheless

over a period of time, world forces have become increasingly out of balance, hegemonism and power politics have further developed, and regional crises have occurred frequently. This shows that the move toward multi-polarization of the world is a tortuous and long process. At present, by virtue of its economic, technological, and military advantages, an individual country is pursuing a new "gunboat policy" in contravention of the United Nations Charter.⁵⁹

Thus, the practice and doctrine of both PRC and Russian foreign and security policy are increasingly converging. Whereas Russia accorded a privileged position to the United States in 1992, it has now reversed field. From practical and doctrinal equidistance by the mid-1990s (symbolized by the creation of a mirror-image Sino-Russian joint commission to counterbalance the Gore-Chernomyrdin Commission), Russian practice and theory by 2000 unquestionably had established a privileged relationship with the PRC, and had adopted the PRC's view of the United States as a threat.⁶⁰

As disturbing as these developments are for U.S. national interests and security, there have been persistent reports of much more far-reaching covert cooperation and agreements between the PRC and Russia. According to the *Washington Post* in February 2000, "Western experts and Asian diplomats say that over the last year, and especially since the Kosovo war last spring, Moscow's security ties have surpassed the simple cash-for-weapons transactions that characterized the relationship for years and are evolving into something more complex and potentially far-reaching."⁶¹

In testimony before the House Armed Services Committee on July 19, 2000, Prof. Stephen Blank of the

U.S. Army War College surveyed reports beginning in 1995 and extending through 2000 of explicit Russian solicitations of a formal military-political alliance with the PRC, together with more recent reports that the PRC is warming to such proposals. According to Prof. Blank,

on July 12, 2000 at least two Chinese language sources, one from New York, reporting from Taipei, and another from Hong Kong, as well as the *Singapore Straits Times*, stated that President [Putin] told President Jiang Zemin at the July 5 Dushanbe Summit of the Shanghai Five ... that in the event of a war with Taiwan, should the U.S. Seventh Fleet sail to Taiwan's rescue, he had ordered Russia's Pacific Fleet ... to block our forces from getting to Taiwan.⁶²

Prof. Blank further noted there was substantial additional evidence that conflicts with such reports.⁶³ He summarized that:

while it would be rash to conclude that an alliance in the classical sense is on until we have further confirmation, these reports should ring alarm bells in the White House, intelligence community, and the Pentagon.⁶⁴

Today, Russia and the PRC coordinate their policies across the spectrum of sensitive foreign policy and security issues. Both vehemently oppose U.S. national and theater missile defense programs, and U.S. efforts to amend the 1972 Anti-Ballistic Missile Treaty. Both oppose NATO expansion, despite the evident lack of a PRC national-security interest in Central Europe. Both bitterly denounce the sanctions and U.S. use of force against Iraq. Both oppose NATO policy in Kosovo. Both reject any outside scrutiny of their human rights abuses in Chechnya, Xinjiang, and Tibet. Moscow supports Beijing's position on Taiwan, and Beijing supports Russia's war in Chechnya.

After eight years of Clinton policies designed to woo both Moscow and Beijing, the United States is the odd man out.

Arms Sales: The 'Glue' of the Sino-Russian Partnership

From its inception, the new Sino-Russian partnership has been built on Russian transfers of arms and military technology to the PRC--transfers seen by Russia as serving both economic and political goals.⁶⁵ Steady increases in the size and quality of these transfers have accompanied and enabled each improvement in the "strategic partnership":

In 1991-96 Russia sold China an estimated \$1 billion a year worth of weapons and related technologies. That figure doubled to \$2 billion a year by 1997. ... In 1999 the two governments doubled that military assistance package for a second time. Thus there is now a five-year program through 2004 of \$20 billion worth of such transfers. ...

Every year 8-12 military delegations of various services will conduct mutual visits to the other country to promote bilateral military ties. Every year 1,200-2,000 Chinese military students will study in Russian military academies. Both governments' armed forces will conduct joint exercises at an appropriate time. ...

A mechanism for the exchange of military intelligence will be established and there will be

a mechanism for cooperation in the manufacture of naval, air, and air defense weapons. And given the scope of other exchanges in technology and know-how it would seem that still more cooperation is in the offing.⁶⁶

Sales of increasingly advanced armaments remain, as one senior People's Liberation Army official at the PRC's Moscow Embassy recently stated, "the glue" binding bilateral Sino-Russian relations.⁶⁷ The sharp increase in the quantity of Russian weapons and technology transfers has accompanied a progressive easing of qualitative restrictions on Russian exports to the PRC of weapons that most threaten the United States.

Military Aircraft

In 1992 Russia began delivering Su-27 air superiority fighters to the PRC. By 1994 it reportedly agreed to sell the PRC the Su-30MKK long-range attack variant of the Su-27, capable of carrying twice as much armament. The Su-30MKK is capable of carrying the most advanced Russian short- and medium-range air-to-air missiles. It has also been reported that the PRC will be acquiring the newly-developed Su-32 tactical bomber once it is made available for export in 2002.⁶⁸

By Yeltsin's April 1996 Beijing summit, Russia and the PRC had reached a licensing agreement for PRC production of the Su-27.⁶⁹ Such licensing agreements transfer far more technological capability than off-the-shelf weapons sales.

Beijing has also reportedly ordered Tu-22M Backfire bombers⁷⁰--long-range supersonic strategic bombers capable of performing precision anti-ship missions, as well as conventional and nuclear strikes. The Backfire's potential use as an intercontinental bomber made it the subject of rancorous arms-control negotiations between the U.S. and the U.S.S.R. Its capabilities against U.S. carrier battle groups would arguably be of still greater interest to the PRC.⁷¹

The PRC is also reportedly negotiating to acquire Su-37 long-range attack aircraft--arguably the world's most capable jet fighter.⁷²

In 1997 the PRC acquired the license to produce MiG-31 long-range fighter-interceptors--the most capable Russian interceptor, and the first with an effective look down-shoot down capability.⁷³

The PRC is seeking to acquire an AWACS radar system from Russia in the wake of Israel's withdrawal from a planned sale. It has already acquired Ilyushin Il-76 transport aircraft suitable for carrying the AWACS system.⁷⁴

In late 1997, the Russian firm Phazotron contracted to provide the PRC with improved Zhuk radars for the PRC's new F-8II fighter, and for the Chengdu J-10 fighter.⁷⁵

Warships

During then-Premier Li Peng's December 1996 visit to Moscow, the PLA Navy ordered two *Sovremenny*-class destroyers equipped with Moskit ("Mosquito") SS-N-22 surface-to-surface missiles. These are weapons specifically designed to destroy U.S. aircraft carriers and their AEGIS escort vessels.

The sale represented "the first export of several state-of-the-art Russian weapons systems, including not only the ship but also the supersonic Moskit anti-ship missile ... new electronic warfare systems and other naval technology."⁷⁶ According to *Jane's Intelligence Review*:

The Sovremennys will also provide the [PLA Navy] with its first viable medium range air-defense system in the form of the Mach 3 SA-N-7, which has a 25 km range. The new warships also have a strong anti-submarine armament, including a bow-mounted sonar, torpedo tubes, rocket launchers and a Russian Ka-28 'Helix' helicopter.⁷⁷

The PRC's purchase of this anti-U.S. carrier weapons system followed U.S. deployment of two aircraft carrier task forces to the Taiwan Strait during the missile firings that Beijing ordered during Taiwan's 1996 presidential elections. The first of the Russian-built destroyers, the *Hangzhou*, arrived in the PRC in February 2000; the second is expected to arrive in November 2000.⁷⁸

In March 2000, Russian Deputy Prime Minister Ilya Klebanov announced that "China is interested in buying not two but a larger number of Russian destroyers equipped with Moskit missiles."⁷⁹ The acquisition of these vessels and their missile systems provides a "vital upgrade" to the PLA Navy in its continuing effort to erode the U.S. Navy's ability to assist Taiwan:

This class of destroyer is equipped with modern, well-proven Russian weapons and sensors and has been successful in Russian service. ... The new missiles pose a potential threat both to Taiwan's recently modernized navy and to any U.S. carrier battle groups that may be deployed to the Taiwan Straits. ... The addition of the Sovremenny destroyers to the Chinese order of battle should substantially reduce the nation's susceptibility to such defense diplomacy. ... The Sovremenny destroyers represent a quantum leap in [PLA Navy] capabilities. ...⁸⁰

In a July 2000 hearing on the PRC's military capabilities, the House Armed Services Committee was informed that "American military sources have stated that the Moskit is possibly the most lethal anti-ship weapon in the world, and that the U.S. Navy has nothing that can stop it."⁸¹



DESIGNED TO DESTROY U.S. CARRIERS: During then-Premier Li Peng's December 1996 visit to Moscow, the PRC Navy ordered two *Sovremenny*-class destroyers equipped with Moskit ("Mosquito") SS-N-22 surface-to-surface missiles--weapons specifically designed to destroy U.S. aircraft carriers and their AEGIS escort vessels.

Submarines

Russia has sold the PLA Navy four *Kilo*-class submarines, with deliveries beginning in early 1995. The

Director of Naval Intelligence testified in April 1999: "The last two diesel submarines ordered from Russia were upgraded variants of the *Kilo* design. This variant is one of the quietest diesel submarines in the world and was previously only seen in service with the Russian Navy."⁸² The PRC reportedly intends to obtain licensing rights for construction of Kilo-class submarines, as well.⁸³

The Defense Department's *Annual Report on the Military Power of the People's Republic of China for 2000* notes that this acquisition "reportedly has provided the [PLA Navy] with access to technology in quieting and sonar development, as well as weapons systems." The *Annual Report* further notes that the PRC's most advanced indigenously-built diesel attack submarine, the SONG, reportedly incorporates technologies acquired from both Russia and Western countries, and that "Beijing's next-generation nuclear submarine programs are expected to reflect a significant amount of Russian influence."⁸⁴

Russia reportedly is also prepared to sell the PRC a conventionally-armed version of its Shkval-E weapon, designed to protect Russian ballistic missile submarines.⁸⁵

Armor

Russia approved the sale of 50 T-72 main battle tanks to the PRC's People's Liberation Army in 1992. By 1995 it had agreed to upgrade the PLA to T-80U tanks, and by 1999 Russia was discussing the sale of T-90C tanks.⁸⁶



FROM RUSSIA TO THE PRC: Russia's 50-ton T-90 Main Battle Tank is the most advanced armor unit deployed by the Russian Army. Russia approved sales of 50 T-72 Main Battle Tanks to the PRC's People's Liberation Army in 1992, in 1995 it approved orders for T-80U tanks, and by 1999 Russia was discussing selling T-90C tanks to the PRC.

Beyond-Visual-Range Air-to-Air Missiles

It has been reported that in the near future the PRC will begin receiving shipments of the Vympel R-77 medium-range air-to-air missile, dubbed the "AMRAAMSKI" because of its similarity in capabilities to the American AIM-120 AMRAAM. The R-77's estimated range of approximately 55 miles makes it a fully functional beyond-visual-range air-to-air missile. This missile is useful in attacking existing U.S. fighters such as the F-16 and F-15, and will challenge the superiority of even newer U.S. aircraft such as the F-22 and F/A-18E/F. According to one analyst, the result of the PLA's acquisition of Vympel R-77 missiles is that "[t]he Chinese air force will pose a greater threat to Taiwan after its acquisition of one of

the best [air-to-air-missiles] in the world." 87

Surface-to-Air Missiles

According to the Defense Department's *Annual Report* for 2000, in recent years the PRC has embarked on an aggressive program to procure state-of-the-art Russian surface-to-air missile systems and related technologies. To date, limited numbers of Russia's SA-10b, the SA-10c, and SA-15 SAMs have been sold to the PRC.⁸⁸

Intercontinental Ballistic Missiles

Either or both of the PRC's two new land-mobile ICBMs, the DF-31 and DF-41, "may be armed with multiple independently targetable warheads (MIRVs) based on technology provided by Russia and illicitly acquired from the United States."⁸⁹ In 1995 the Russian Ministry of Defense violated the Missile Technology Control Regime by selling upper-stage rocket engines to the PRC.⁹⁰ It has been reported that in 1995, Russia was preparing to sell heavy SS-18 "Satan" ICBMs to the PRC.⁹¹

Russia and the PRC are reportedly close to agreement on joint use of Russia's GLONASS satellite-based global positioning system. This would aid the PRC military in targeting its rockets and air-to-air missiles.⁹²

Russia and the PRC are also exploring the possibility of cooperating on a ballistic missile defense--an ironic form of collaboration, given the two nations' outspoken opposition to U.S. missile defense efforts.⁹³

Military Technology

In addition to arms transfers and licensing agreements, Russia has transferred significant defense technology and know-how to the PRC:

Perhaps more serious than Russia's sale of military hardware to China is the transfer of production technologies. China and Russia signed a memorandum on defense technology cooperation in 1996 in which Russia agreed to assist China's development of new weapons systems. ...

China has also attracted a significant number ... of Russian scientists to work in China's defense industry. These elements of China's military relationship have long-term implications for China's overall military modernization program in that they may facilitate a comprehensive upgrading of Chinese defense research, development, and production capabilities.⁹⁴

The PRC's arms acquisitions from Russia have multiple rationales:

First, they are endeavoring to fill pressing near-term military needs. Second, and perhaps

more importantly, however, they are attempting to acquire advanced military and military-related know-how. The foreign purchases also represent hedges against the failure of indigenous development programs.⁹⁵

The Clinton Administration 'Welcomes' Russian-PRC Military Cooperation

Necessarily attempting to put the best face on the unraveling of its Russia policy, the Clinton administration has affected to be unconcerned by the Sino-Russian strategic partnership, or the arms sales that have undergirded it. Indeed, in May 1998, Walter B. Slocombe, Under Secretary of Defense for Policy, went so far as to say that, "far from seeing a threat to U.S. interests ... we welcome it, as a step toward Russia being a constructive partner in the region."⁹⁶

In July 1998, Ambassador Stephen Sestanovich stated that "[t]o date, Russian arms sales to China have not significantly improved China's military capabilities." Notwithstanding the PRC's well-known hard currency reserves, Sestanovich further opined that it "is far from clear that China will be willing or able to pay for significant quantities of additional weaponry."⁹⁷

When asked if the Clinton administration shared our East Asian allies' concern that the PRC-Russian strategic partnership was a threat to peace and stability, he replied:

[N]o, we do not share that assessment, but agree that we must remain watchful. Both Russia and China have explicitly declared that their improved relationship is not directed against the U.S. The U.S. supports the warming in relations between Beijing and Moscow.⁹⁸

Likewise, when asked In February 2000 about the implications for U.S. security of Russian arms sales to the PRC, and whether the U.S. has yet expressed any opposition to them to Moscow, Secretary of State Albright evaded both inquiries in her reply for the record:

While China's purchase of two guided missile destroyers will clearly improve its naval capabilities, the Department of Defense has indicated that it does not pose a significant military threat to the U.S. military posture in Asia and that it will not fundamentally alter the regional balance of power. The United States maintains an active dialogue with Russia on the issue of arms sales, reflecting our concern about proliferation and regional security.⁹⁹

The Clinton administration's seeming nonchalance belies a far more serious set of concerns beneath the surface. In their totality, Russian sales of arms and technology to the PRC now account for more than 90% of the PRC's military imports.¹⁰⁰ As House Armed Services Committee Chairman Floyd Spence recently reported, "[w]eapons purchases from Russia have given China, for the first time, power projection capabilities that can be expected to pose new challenges to U.S. forces operating in the China Seas."¹⁰¹ Sherman Garnett, former Principal Deputy Assistant Secretary of Defense for Russia, Ukraine, and Eurasia, testified in March 1999:

China's military modernization requires substantial improvements in its air force, command, control and communications, naval power projection, and space technology. Russia has accommodated or appears willing to accommodate China in all these areas. ... These sales--and the broader defense and technology cooperation that are linked to them--could over time help to alter regional military balances in areas of vital U.S. interest in East and

The sale of increasingly sophisticated Russian weaponry and technology to the PRC, and the establishment of close security cooperation between Beijing and Moscow, calls into question the fundamental prediction undergirding much Clinton administration security planning: that the United States will face no peer competitor in the military field during the next two decades.¹⁰³ Any truly thoroughgoing *combination* of Russian and PRC technology and resources would surely produce a peer competitor for the United States more quickly than is otherwise commonly supposed.

Nor are the national security consequences to the United States limited to the military posture of the PRC or Russia. Because of the PRC's track record as a significant weapons proliferator, these Russian exports can be expected to have a cascading effect in other regions of vital importance to the United States:

China is not simply an importer of arms, it is a major exporter of arms and missile technology. ... China is a particularly important supplier to Iran and has been a major supplier to Iraq in the past. Any Russian transfers of advanced military technology are likely to eventually pass on to potentially hostile states once China absorbs them and begins to produce similar equipment or weapons.¹⁰⁴

An Unnatural Alliance

It is a striking indictment of the Clinton administration's policies that the Sino-Russian strategic partnership could have taken such deep root during the last eight years despite the latent contradictions inherent in it. Both Beijing and Moscow have each had to pay a significant price for their strategic partnership, which remains narrowly based on weapons transfers and self-defeating antagonism towards the United States.

Russia and the PRC have both been disappointed in their expectations for a broadly-based economic relationship. Although in 1996 both nations set a goal of \$20 billion in bilateral trade by 2000, trade levels have stagnated at around \$6 billion annually.¹⁰⁵ Moreover, they remain overwhelmingly focused on PRC purchases of weapons and nuclear power technology. Sino-Russian trade overall fell in 1997 and 1998, and has yet to reach its exceptionally modest level of 1993.¹⁰⁶

Initial Russian hopes that flourishing transborder trade with the PRC would assuage the economic crisis in the Russian Far East--arguably deeper even than the other depressed areas within Russia--were dashed by a host of factors, including the inherent limitations of barter trade, high customs duties, corruption, burdensome regulation on both sides of the border, and Russian complaints about the quality of Chinese exports.¹⁰⁷ Beijing and Moscow have already de-emphasized transborder trade and looked instead to improved political relations between the two national governments to expand the economic basis for the emerging partnership.

These hopes also remain unfulfilled. In 1997, Sino-Russian trade represented only 2% of the PRC's total trade. In that year, Russia ranked just eighth among the PRC's trading partners. Russia's total trade with the PRC was barely a tenth of Japan's, and less than a sixth of that with Hong Kong and the United States.¹⁰⁸

Even in the Russian Far East, the PRC has failed to become a predominant factor in Russian commerce. The United States remains the largest investor in the Russian Far East--a far larger investor than the PRC, whose own vast appetite for capital limits drastically its capacity for foreign investment. South Korea, not the PRC, is the leading exporter to the Maritime Province; Japan, not the PRC, is the leading importer of Maritime Province products.¹⁰⁹

Russia's June 28, 2000, *Foreign Policy Concept* states that "[t]he main task [in Russian relations with the PRC] is, as before, bringing the scale of economic interaction in conformity with the level of political relations." There is little reason to think that either party will accomplish this "main task":

China wants airplanes from Boeing or Airbus, not Tupolev; it has sought joint ventures with Audi and General Motors, not Lada. ... The hoped-for benefits to Russian industry from [economic ties with the PRC] have not materialized. ...

Corruption and rent-seeking have made many rich but seldom have made the enterprises or their workers better off. Although widespread benefits are usually touted when deals are signed--proceeds from Russian-Chinese arms sales in late summer 1997 were designated to pay the salary arrears of Russian officers--little seems to trickle down beyond the senior enterprise and government officials who are the prime beneficiaries of such deals.¹¹⁰

Despite much talk of the "complementarity" of the two economies, "Russia cannot provide China with what it needs for the modernization of its economy. It cannot provide large scale investment, because such investment is desperately needed inside Russia itself. ... China, which has had a great influx of foreign investment, is itself reluctant to invest in Russia. ... Financially, economically, and technologically, both countries still depend more on the West than on each other."¹¹¹

The key element in Russia's economic relations with the PRC--its weapons sales, licensing agreements, and technology transfers--are ultimately self-defeating not only on commercial but also strategic terms. Not only are Russia's weapons transfers to the PRC significantly improving the military capabilities of an unpredictable neighboring power, but over time Russia's technology transfers will erode both the PRC and the international market for further arms sales, as the PRC strengthens its domestic military-technological capabilities, reduces its dependence on Russian imports, and itself becomes a competitor of Russia's in the international arms trade.

Despite the muting of official Russian concern over its potential military, economic, and political rivalry with the PRC, Russian foreign and defense policy planners foresee not only growing PRC interest in the energy resources of the former Soviet republics of Central Asia¹¹²--which Russia regards as a vital sphere of influence--but also the potential for PRC intervention in that region, should declining Russian power or destabilization of the current secular regimes cause this region to become a source of support for ethnic or Islamist separatists in Xinjiang.¹¹³ Moreover, the PRC policy of expanding economic links with Central Asia "is effectively undermining Russia's influence there. The reality of the Chinese economic boom and the Russian economic bust is causing a shift in the economic orientation of sections of the Central Asian region from the north to the east."¹¹⁴

The imbalance of power between the PRC and Russia in the Russian Far East, a region comprising over one-third of the Russian Federation's territory but containing only 5.1% of its population, will eventually require Russia to seek better ties with not only the United States but Japan, South Korea, and other East

Asian states. As one observer has written,

Russia is an Asian power geographically, militarily, and politically--but not demographically or economically. ... Siberia and the Russian Far East produce more than 90% of the country's oil and gas, all the diamonds, and a great share of other important natural resources ... [yet only] 7.5 million of the nearly 150 million Russian citizens live in the Russian Far East. ... In 1990-92, for perhaps the first time since Russia annexed the region in the nineteenth century, there was a net out-migration of more than 225,000. Moreover, the rate of out-migration was increasing.¹¹⁵

And although Beijing has, at least temporarily, put on ice its far-reaching potential claims to vast tracts of the Russian Far East wrested from Qing China during the past 250 years by "unequal treaties," this vast expanse could theoretically be claimed by the PRC to be as much an irredenta as the island of Taiwan.

While the emerging causes of friction between Russia and the PRC are based on long-standing differences, the causes of the current friction between Russia and the United States are not. A U.S. national missile defense does not begin to threaten Russia's deterrent forces. Kosovo and Bosnia are, in fact, tangential to both Russian and American strategic and economic interests. NATO enlargement does not threaten Russia and is not designed to exclude it from Europe. Nor does the United States seek to exclude Russia economically, politically, or militarily from Central Asia or the Caucasus.

The United States has a profound national security interest in Russia's becoming economically strong, free, and democratic. If Russia were to succeed in moving decisively from its Communist past to a free enterprise system, its future relationship with the United States could well mirror that of Japan, Germany, France, or England.

But Russia's current flirtation with the PRC's heavily statist economy, to the exclusion of opportunities with the United States, is destined to delay indefinitely its progress toward that goal. The current "strategic partnership" with the PRC, designed for joint confrontation and competition with the United States, is indeed an unnatural alliance that will only further delay Russia's economic transformation and further test the patience of the long-suffering Russian people.

Nearly a decade after the end of the Soviet Union, the task ahead for Russia remains the same. But her estrangement from the American model of freedom has taken Russian on a destructive detour of unknown duration and uncertain destination.

The Future: 'A Strategic Partnership for the Twenty-First Century'?

[T]his [Sino-Russian] relationship has reached a mature stage of strategic military-political coordination, if not alliance, mainly directed against U.S. policies and interests.

Professor Stephen J. Blank, U.S. Army War College¹¹⁶

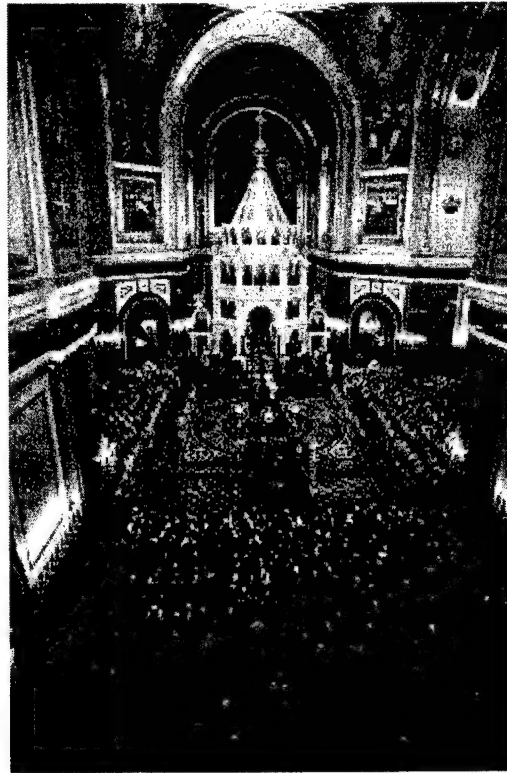
The coin of "strategic partnership" has been badly debased in recent years. During the same period in which Russia and the PRC were flaunting their "strategic partnership," President Clinton and Vice President Gore were using the same term to describe U.S. relations with both of those countries.¹¹⁷ As Peter Rodman has testified: "The Clinton Administration still speaks glowingly of its 'strategic partnership' with a democratic Russia. Yet, for Russia, 'strategic partnership' is the phrase used for its ties with Iran and China--which happen to be America's most serious strategic problems."¹¹⁸

The Clinton administration's mismanagement of U.S. relations with Russia has led to a growing military and political relationship between Russia and the PRC that is meant to seriously challenge the United States, our allies, and existing security arrangements in the Pacific. Two significant factors, moreover, are currently strengthening the "partnership." Russia's continued economic disarray and the financial crisis in the Russian military-industrial complex remain powerful motives for arms sales and proliferation activities. Second, largely for this reason, the "Moscow Consensus" on foreign policy appears to be firmly in place, with the result that the Russian domestic political premium on demonstrating distance from Washington is even greater now than in the past.

It is not only deeply ironic but tragic that this state of affairs follows \$112.2 billion in Western assistance to Russia. After eight years of a Clinton administration policy that has yet to place highest priority on the basic steps needed to create a free enterprise economy in Russia, the U.S.-Russia relationship is in ruins, characterized by deep and growing hostility and divergent perceptions of international realities and intentions.

CHAPTER 12

DESPITE YEARS OF POLICY FAILURE, A BRIGHT RUSSIAN FUTURE IS STILL POSSIBLE



A SPIRITUAL GATHERING: Russian Orthodox Patriarch Alexei II took part in a service marking the 10th anniversary of his installation inside Christ the Savior Cathedral, in Moscow, June 10, 2000. The giant cathedral, which Josef Stalin had torn down and turned into a swimming pool, was restored in 1997. Seventy bishops, 400 priests and deacons, and thousands of believers sang at the anniversary ceremony, which was covered by all of Russia's major television channels and newspapers and marked with an official statement by President Putin highlighting the importance of the Orthodox Church to Russian society. "The Russian Orthodox Church," Putin said, "plays a colossal role in the spiritual gathering of Russian lands after years of unbelief, moral downfall and theomachy." Today, after the battle against the false gods of Communism was won, a bright future is finally possible for Russia. AP Photo

It is my fervent hope that the two of us can begin a process which our successors and our people can continue-facing our differences frankly and openly and beginning to narrow and resolve them; communicating effectively so that our actions and intentions are not

*misunderstood; and eliminating the barriers
between us and cooperating wherever possible
for the greater good of all.*

**President Ronald Reagan, November 14, 1985, on the eve of his first meeting
with Mikhail Gorbachev in Geneva**

Seeds of Hope

Nearly a decade after the fall of the Soviet Union it is easily forgotten that for most of the 20th century, America stood toe-to-toe with a Communist enemy armed with tens of thousands of nuclear weapons, which had killed at least 20 million of its own citizens and sought to spread its anti-democratic system of state control of the individual across the planet.

The end of the Soviet Union on Christmas Day 1991 was as profound a victory as the West had achieved against Imperial Japan and Nazi Germany in World War II. Just as Germany and Japan were guided through skillful execution of U.S. policy to their current status as free enterprise democracies and strong U.S. allies, so too did our victory in the Cold War offer the prospect that the Russian Federation would achieve its people's new dream of freedom, democracy, demilitarization of the economy, and alliance with the United States.

The 1990s did not witness such a transformation of Russia. Instead of capitalizing on America's most significant foreign policy opportunity since World War II, the policies of the Clinton administration--focused on strengthening the Russian central government rather than deconstructing the state and building from scratch a free enterprise system--contributed to the profound injury of Russia and her people.

During the last decade, Russia endured the rise of organized crime, oligarchy, and corruption. By 1998, Russia's economy had collapsed--the culmination of years of deterioration as Soviet central planning was replaced with neither market competition nor even government-enforced civil order. The consequent pathologies--from domestic social ills, to increasing weapons proliferation for hard currency, to a foreign policy marked by a deepening estrangement from the pro-American outlook of the early Yeltsin period--are the legacy of the post-Cold War era thus far.

The task ahead for Russia in 2000 is essentially the same as it was in 1992. Indeed, as Michael Dobbs reported in the *Washington Post* in August 2000, "most people are worse off than they were in 1991."¹ Since so little progress has been made toward putting in place the building blocks of a democratic free enterprise system, one that serves the people and not the corrupt few, that work must now begin in earnest. But whereas conditions in Russia in 1992 were eminently hospitable to such an undertaking, the ensuing years of policy failure have squandered that advantage. Now, with so many Russians having soured on "reform," the necessary work will be much more difficult.

Despite the dimensions of the task ahead, the outlook for Russia is not entirely bleak. The economic

collapse of 1998, while devastating, has given way to a determined effort to dig out from beneath the rubble and start afresh. The hostility engendered by the statist, incoherent, and clumsily-administered Clinton administration foreign policy need not create an enduring cold peace.

The seeds of hope sown in the Russian soil in 1991 have not yet blossomed into a vibrant, prosperous, free society, but they have withstood the crony capitalism and outright corruption of Chernomyrdin and Chubais and the deluge of Clinton administration-orchestrated debt that was wasted by the Russian government. Hope that was not crushed by Stalin's purges, the KGB, and the epic human misery of the longest failed social experiment in human history is not easily extinguished. If nurtured, the still-living seeds of hope can and will produce a bright Russian future.

Russia's Slow Economic Recovery Since the Crash of 1998

Russia's total economic collapse in 1998 inflicted pain, suffering, and disruption on millions of Russians. It is a testament to the storied Russian character that Russia has survived, and is fighting back. If given a chance, freedom can yet succeed in making Russia prosperous.

The collapse of 1998 gave evidence that reliance on the state had been broken. For the most part, Russians were forced to survive on their own; few looked to the state for help. "No one I know expects anything from the government or any other authorities," writer Tatyana Tolstaya matter-of-factly stated. "People try to survive without the government as much as possible."²

This view was confirmed by a survey of Russians carried out at the end of September 1998, in the depths of the economic crisis. Of those polled, 61% said that they were relying on themselves to get through the crisis, while 14% were depending on families, neighbors, and friends. Only 12% said they had turned to the state for aid. Asked what will enable them to live through Russia's economic collapse, none mentioned the state.³

"The August crisis was a great economic shock, but the psychological shock was even stronger," pollster Yuri Levada noted. "But after several months, the country began to calm down."⁴ The rise in world energy prices provided a needed respite for Russia to begin its gradual economic reconstruction in 1999.

Virtually all of Russia's major economic indices improved modestly in 1999. This is not surprising, of course, given the exceptionally low 1998 base from which percentage "improvements" were measured. Nevertheless, according to official Russian government statistics, the economy grew 3.2% in 1999; industrial production rose 8.1%; and inflation was lower than expected at 36.5%.⁵

The slow economic progress that began in 1999 has gained some momentum in 2000. The Russian government reported in July 2000 that the economy was growing at an annual rate of 7.3% during the first six months,⁶ while industrial output from January to June rose 8.6%.⁷ Unemployment, which had been as high as 13% of the workforce after the 1998 economic collapse, fell slightly to 11.7% by the end of 1999.⁸ By June 2000, it remained at 11.5% of the 73.6 million citizens of working age.⁹

Inflation after the first six months of 2000 had further improved and was expected to fall to 20% for the year.

The surge in oil prices has meant a major windfall in export earnings for Russian energy companies.

Russian oil and gas exports now account for more than half of all federal tax receipts.¹⁰ Fueled by strong energy exports, Russia's trade surplus reached \$27 billion for the first five months of this year.¹¹

The resuscitation of Russia's economy and the rising export earnings have increased the government's tax revenue and boosted the Russian Central Bank's reserves to a post-crash high of \$23.2 billion in August 2000.¹²

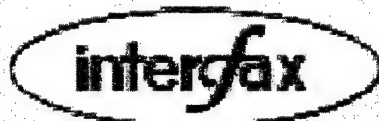
Promising Tax Reform

The Russian government is using the breathing room created by high oil prices and import substitution to implement much-needed tax simplification and government spending reductions.

After President Boris Yeltsin's December 1999 resignation, Russia's Center for Strategic Research was tasked with drafting an economic reform program for the incoming Putin government. Headed by German Gref, whom Putin subsequently appointed Russia's Minister for Economic Development and Trade, the Center released its report in June 2000. It emphasized:

- * Reducing government spending
- * Balancing the state's budget
- * Eliminating many state subsidies
- * Implementing a 13% flat income tax
- * Reducing turnover taxes on business

The 13% flat income tax, in particular, has gained popular support in part because it is seen as a way to eliminate tax evasion by wealthier Russians. The flat tax passed the State Duma overwhelmingly on July 19, 2000, and it passed the Federation Council with an unexpectedly strong vote of 115 to 23 seven days later.¹³ Vladimir Putin signed the flat tax into law on August 7, 2000, calling it, "the most important event in the country's life."¹⁴



Friday, July 28, 2000

Russians cautiously optimistic about their future—poll

MOSCOW—Russians are displaying cautious optimism about their country's future. Thirty-seven percent believe Russia could successfully compete against the world's leading countries in ten years time, and only 24% do not believe in such a prospect.

The hope that Russia could become competitive in ten years time is expressed most often by those citizens of Russia who voted for Vladimir Putin in the presidential polls (48%), people with higher education (42%), and residents of big cities (52%).

Released by the Public Opinion sociologic fund on Friday, the figures were obtained through a poll of 1,500 urban and rural residents across Russia on July 22.

The turnover tax, which is a major source of revenue for, as well as abuse by, the regional governors, was reduced from 4% to 1%. The Russian central government had hoped to abolish this tax on business revenues; but facing strong opposition from the governors, the Putin government settled for a 75% reduction in rates.

Both the flat tax and the deep cut in the turnover tax are designed to simplify the tax code, spur foreign and domestic investment, reduce capital flight, and encourage higher tax compliance. "I believe that these measures will encourage the return of some money that left the country as capital flight, not criminal money, but money that went because of high taxes," Russian Prime Minister Kasyanov said.¹⁵

Capital flight, the estimates for which range from \$150 billion to \$500 billion over the past decade, has also recently dropped to \$300 million per month.¹⁶ Growing repatriation of Russian capital, the signs of which have been evident for several months, is essential if Russian investment is to improve over the long term. Relief from an onerous tax system, greater transparency, and legal guarantees against expropriation will remove much of the incentive for Russians to send their cash abroad to safer havens.

To encourage the growth of the entrepreneurial sector, Putin has established an Entrepreneurial Council to coordinate ties between Russia's executive agencies and businesses. The Council, which is chaired by Prime Minister Kasyanov, will work with its counterpart in the Duma to improve the laws affecting small businesses.¹⁷

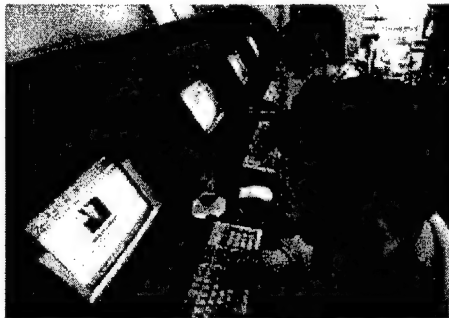
Small and medium business in Russia produce just 12% of Russia's gross domestic product, compared to 70% in European economies. Entrepreneurs remain bogged down in taxes and red tape and are starved for cash due to the unwillingness of local banks to provide inexpensive loans for longer than two years. The Putin government views small business as key to raising living standards, creating wealth, and increasing employment in a short period of time.¹⁸

A Wired Russia

Like all other countries, Russia must utilize information technology if it is to succeed in the 21st century. In his State of the State address, President Putin noted: "Countries like Russia have to think hard about how they're going to get the investment to allow people to become part of the global, information economy."

While estimates put the number of Russian Internet connections at 1.9 million, many of those are multi-user sites hosted by universities and civic organizations. According to a U.S. market research firm, the number of Russians going online has increased 32% in the first quarter of 2000 alone. This same firm predicted in June 2000 that Internet users in Russia will reach 6.6 million by the end of the year, while another study estimated that 11 million Russians would have access by then.¹⁹

Russia's nascent use of credit cards and its limited banking system make business-to-customer e-commerce a difficult proposition in the near term. And Russia's ability to enjoy the benefits of information technology will be severely compromised if Russians lack confidence in its security and privacy--issues directly implicated by reports that the Russian government plans to closely monitor electronic communications.²⁰ But Russians' growing enthusiasm for the Internet may help overcome these obstacles.



WIRED RUSSIA: Moscow student Maksim Gusev uses the Internet in Moscow's Internet Cheignon cafe to ask then-Russian President Boris Yeltsin questions on May 12, 1998. MSNBC organized Yeltsin's Internet debut. The Internet and Internet access are growing in Russia, facilitating international trade and promising economic growth.
AP Photo/Mikhail Metzel

Foreign Investors Tentatively Consider a Return to Russia

In a sign that foreign investors are starting to return to Russia, foreign investment is slowly returning to pre-August 1998 levels.²¹ More than \$10 billion in foreign capital has gone into Russia during the first five months of 2000--twice as much as during all of 1999.²² According to official figures, foreign direct investment in 1999 totaled only \$4.26 billion,²³ although that was 250% higher than the extraordinarily depressed 1998 figure.

In 1999, foreign direct investment in Russia amounted to \$61 per capita; by comparison, the per capita figures for Poland and the Czech Republic were \$389 and \$967, respectively.²⁴ But foreign direct investment in Russia for the first quarter of 2000 rose to \$2.4 billion, 57% higher than for the same period the year before. The trend, at least, is favorable.

Portfolio investment, more so than foreign direct investment, has remained extremely low--\$31 million in 1999 compared to \$3.3 billion in 1997.²⁵ This is reflected in the continued depression of the Russian stock market, compared to its levels before the 1998 economic collapse.

According to a May 2000 report by the Bank for International Settlements, international banks continued to lower their exposure to Russia in the second half of 1999 to their lowest point since the end of 1994--unsurprising, given Russia's extremely poor record of servicing debt owed to the London Club of commercial debtors. American banks, according to the report, reduced their exposure from \$7.78 billion in mid-1998 to \$1.68 billion by the end of last year.²⁶ But others are making up at least a small part of this loss:

- * A Western syndicate of banks in August 2000 announced a \$50 million loan to oil conglomerate Yukos, the first such private loan since the August 1998 collapse.
- * The European Bank for Reconstruction and Development in May announced a \$150 million three-year loan for oil giant Lukoil.
- * The U.S.-Russia Investment Fund in June announced plans for at least \$150 million in investments in Russia over the next 18 months, with the option of investing more if the Russian economy improves.
- * Ford Motor Company recently started construction of a \$150 million plant near St. Petersburg.
- * In early June, Royal Dutch/Shell bought from Marathon Oil a 37.5% stake in a Far East oil and gas exploration project, Sakhalin 2, in a deal worth an estimated \$350 million.

Meanwhile, Russia continues to maintain a positive balance of trade, helping to replenish its weakened foreign currency reserves. The European Union is now Russia's largest trading partner.

The United States continues to be the largest foreign direct investor in Russia.²⁷

A New Generation

The younger generation in Russia--less influenced by the legacy of Soviet Communism than its parents--has a positive attitude about what Russia could become, as well as the desire and initiative to obtain the skills required for the 21st century economy.

Perhaps most important for Russia's future is that young Russians are significantly more supportive of democracy than their older countrymen. In a recent public opinion poll, fully two-thirds of young respondents favored "West-European-style democracy" for Russia.²⁸ While support for democracy among some Russians has eroded somewhat over the last few years, the strongest support for basic democratic rights is among youth.

While older Russians debate whether Russia's future is in the West or East, the younger generation more clearly sees Russia's future with a Western orientation. Importantly, they are "less inclined to pine for the Soviet Union" than their older counterparts,²⁹ and those young people who do view the disintegration of

the U.S.S.R. negatively are focused on narrow, practical issues such as the difficulties involved in traveling between the new independent states of the former Soviet Union.³⁰

Young Russians also display an entrepreneurial spirit unknown to previous generations. Remarkably, three-quarters of 18-29 year-olds believe that it is important, "to achieve success with a business of their own."³¹ This energy and vigor can transform Russian society and Russia's economic future, if it is not indefinitely stifled by current government impediments to the market.

Three-fifths of Russians under the age of 30, according to a 1996 study, favored allowing foreign businesses to operate in Russia.³² More generally, younger Russians are also more likely to endorse Russia's integration into the international community.³³

Younger Russians overwhelmingly are more interested in seeing their country become economically prosperous than in seeing it become militarily strong. A 1998 survey by the U.S. Information Agency found that young people favored Russia becoming, "a prosperous country in which people live well," over "a great military power respected by other nations," by a margin of 80% to 15%.³⁴ Even among young people in the military, 65% chose prosperity over great power status.³⁵

These encouraging signs suggest that Russia's rising generation is unlikely to support a return to the Soviet Union's state-controlled and excessively militarized economy--or the repressive domestic policies and threatening foreign policy behavior that accompanied it.

A Rebirth of Faith

While public confidence in many institutions is low, the Russian Orthodox Church enjoys greater support than any other institution. Sixty-three percent of Russians expressed confidence in the Orthodox Church.³⁶ As a result, the Russian Patriarch, Alexei II, has become one of the country's most influential public figures.

Religious faith has sharply increased since the collapse of the Soviet Union. As one sociologist noted, "in a remarkably brief period of time, Russia has become one of the most God-believing countries in Europe."³⁷

Between 1991 and 1998, those willing to tell pollsters they held a belief in the existence of God increased by one-third, from 45% to 60%.³⁸ One-quarter of Russians surveyed responded that they had not believed in God previously, but had changed their minds since the fall of Communism. (The respondents who had changed their views were concentrated among the young and the educated.)³⁹ At the same time, the number of Russians identifying themselves as Orthodox believers nearly doubled, from 30% to 58%.⁴⁰

Religious belief now plays an increasingly prominent role in Russian public life. In fact, in the campaign preceding Russia's 1999 Duma election, even Communist leader Gennady Zyuganov appealed for the support of Orthodox voters.⁴¹ That the leader of the successor to the militantly atheist Communist Party of the Soviet Union would make such an appeal demonstrates how profoundly Russian society has in fact been transformed.



REBIRTH OF FAITH: The Kursk tragedy tested Russian believers and left the nation grief-stricken. Here, sailors Denis Kopylov, Maxim Yegorov, Alexander Avronyonok (left to right), light candles in a Moscow church for the fallen sailors, Aug. 23, 2000. AP Photo/Mikhail Metzel

Russian President Vladimir Putin has professed his own Orthodox faith and has strongly endorsed the role of the Orthodox Church in Russian life. For example, Putin attended an Orthodox service conducted by the Patriarch in the Kremlin's Annunciation Cathedral immediately following his inauguration.⁴² And on the tenth anniversary of the election of Alexei II as Russia's Patriarch, Putin sent the following message: "The Russian Orthodox Church plays a colossal role in the spiritual gathering of Russian lands after years of unbelief, moral downfall and theomachy."⁴³

Churches long in disrepair or completely demolished by the Soviet state have been restored, and in many instances reconstructed from the ground up. The most celebrated restoration is the rebuilding of the Cathedral of Christ the Savior, destroyed under Stalin, on the banks of the Moscow River. There are many examples of individuals privately raising the funds needed to rebuild or restore churches damaged under Communist rule. In Red Square, a church that had been destroyed to make room for public toilets and kiosks has been reconstructed to its former glory with private funds raised from Muscovites. Some of the original bricks, faithfully kept by believers for years, were used in the reconstruction.

Charitable giving is rising in Russia, to the benefit of both organized religion and private civic and social organizations. The extremely limited resources of most Russians, coupled with the past expectations that the government would provide, make even such modest growth in charitable giving as Russia has witnessed impressive. Charitable giving is continuing even though corrupt officials and organized crime groups have embezzled donated funds and sought to abuse the special tax treatment and duty-free status enjoyed by many Russian charities in order to import duty-free cigarettes and alcohol. In the aftermath of the *Kursk* disaster, Russians ranging from oligarchs and oil companies to ordinary citizens have donated funds for the crewmembers' families, despite fears that the funds might be misused.⁴⁴ The goodwill of ordinary citizens seems inexhaustible.

Russia's Growing Habit of Civic Involvement

During the 74-year existence of the Soviet Union, social organizations existed only with the approval and funding of the Communist Party. Even where such organizations professed goals of promoting human rights, press freedom, or social justice, they were mere fronts for a party unalterably opposed to such aspirations.

Despite this legacy of exclusion from civic life, a number of genuinely private groups have been founded in recent years. The number of human rights organizations has grown from fifty in 1996 to over 1,200 in 1999.⁴⁵ According to the U.S. Agency for International Development (USAID), there are approximately 65,000 active civic and social groups of all kinds in Russia.

Many of these new Russian civic groups have received modest funding support from the United States, which has contributed to more than 13,500 civic activists. The Eurasia Foundation, the International Republican Institute, and the National Democratic Institute for International Affairs, working through USAID and the National Endowment for Democracy, have contributed in this area.

There are signs that privately-organized civic activism is taking root in the new Russia. For example, more than 60 Russian environmental organizations sent a letter to World Bank President James Wolfensohn calling on the World Bank to cease lending to Russia. The cutoff was urged in protest of President Putin's May 19 decree abolishing the State Committees on Environment and Forestry and transferring the two committees' responsibilities to the Ministry for Natural Resources--which is also responsible for mining and exploiting Russia's oil, gas, and mineral wealth. Among those signing were environmentalist Alexei Yablokov and Aleksander Nikitin, the former navy officer who had been imprisoned after revealing the extent of the Russian navy's harmful nuclear pollution.⁴⁶

Russians are now accustomed to such elements of civic life as participating in talk radio and debating domestic and foreign policy openly in the public square. There is a new sense of individual responsibility for civic life. The habits of participatory democracy and community-based social action are increasingly well learned.

A Well-Trained Workforce

The Soviet Union's education system was notoriously ideological. It indoctrinated students in Communist ideology and used the classroom as a tool of state control over the population. Yet precisely because so much was banned from Soviet classrooms, Russians received a healthy dose of such politically "safe" subjects as mathematics, physics, chemistry, and engineering. Likewise, training in classics, ancient history, languages, and geography was politically acceptable under Communism.

A silver lining to the Soviet state's lack of academic freedom was thus its success in training scientists and specialists. The high level of education and skills in these areas among much of the Russian workforce is an asset that Russia still possesses intact.

But while Russia still excels at teaching applied sciences, the complete collapse of the Russian economy in 1998, and the rocky years of the 1990s that preceded it, took a drastic toll on the Russian education system. There has been an overall decline in quality due to cutoffs of state funding. Russian schools--virtually all state-run--in recent years have been incapable of supporting their own operation. Some 500 Russian schools closed in 1999 alone.⁴⁷ "Some teachers complain of not being paid for months at a time,"⁴⁸ and often many teachers work while still owed back salary from the previous academic year.

Russia's technically educated workforce is thus not being replenished. Improving Russian education to train a 21st century workforce will require not only building on the strength of its technical and scientific education in the past, but also unlocking the potential of a new academic freedom that was born with the

end of Communism. To the extent that the economy recovers, the government will also be able to provide greater funding to the education system.

Just as importantly, Russia has the potential to develop its fledgling private education system--only 0.5% of Russia's 70,000 schools were private in 1992--into an alternative means of training its workforce, particularly in the areas of trade schools, technical institutes, and higher education.

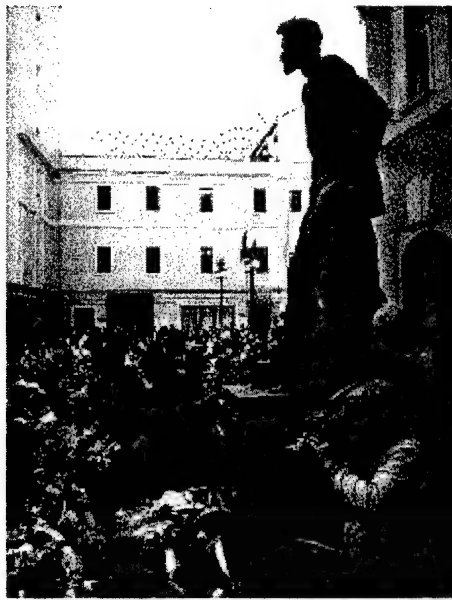
Despite her government's desperate fiscal straits, Russia remains a technologically advanced nation with many leading scientists and engineers, a superb educational ethic, and a broadly talented workforce. Whether these assets can be deployed productively in the private sector, for the benefit of all of Russia's 146 million people, is a challenge that still lies ahead for Russia's leaders.

Culture

Russia has a rich culture which ties its people together and is universally admired. Russian masters such as Pushkin, Gogol, Dostoevsky, Chekhov, Turgenev, Goncharov, and Tolstoy have provided a "common language" of reference for Russians and a fascinating insight into Russia for the world. While the long period of Soviet censorship stifled Russia's creativity (so that the emergence of long-suppressed works by such writers as Bulgakov, Pasternak, and Solzhenitsyn was the exception), the nation's extraordinarily rich pre-Communist literary tradition is an asset that has only appreciated with each passing year.

Russian ballet, music, and opera are world-renowned. Great Russian composers such as Shostakovich, Tchaikovsky, Moussorgsky and Glinka have combined folk music with the European classical tradition for uniquely Russian operas that not only survived Communism but are currently providing an ageless foundation for 21st century artists to build upon. Russian music and theater are today valued and enjoyed as much as they have ever been in Russian history. Regional theaters in cities such as Perm and Novosibirsk are training grounds for the dancers who go on to the Bolshoi.

Russian art is likewise a great source of pride, from Rublev in the 15th century and Ushakovin in the 17th to the more contemporary works of such artists as Kandinsky and Korovin and the work of jeweler Faberge. This heritage, too, is one of the new Russia's appreciated assets.



A BOWL OF CHERRIES: People put flowers at a newly opened monument to Anton Chekhov outside Moscow's Art Theater on the theater's 100th anniversary. The theater, which catapulted Chekhov and Konstantin Stanislavsky onto the world stage, turns 102 years old on Oct. 26, 2000. It gained widespread acclaim after the success of one of its first plays, Chekhov's "The Seagull," in 1898, and went on to become one of the century's most influential theaters. AP Photo/ Alexander Zemlianichenko

Despite a Decade of Frustration, Russians Still Support Democracy

The election of Vladimir Putin to the Russian presidency is widely attributed to the public longing for order after a decade of chaos. A widely-quoted public opinion survey taken prior to the March 2000 presidential election showed that approximately one-third of Russians were willing to sacrifice some freedom to gain order.⁴⁹ But despite the unmistakable public clamor for a crackdown on crime and corruption, a majority of Russians are not prepared to give up their most cherished and hard-won liberties.

Russians are indeed strongly committed to their new civil and political liberties. An August 1999 U.S. government survey found that 73% of respondents opposed loosening restrictions on police and security forces, 66% opposed banning meetings and demonstrations, 62% opposed canceling elections, and 53% opposed media censorship. Significantly, these views were expressed when Russians were asked if the above steps were permissible "to establish strict order in Russia."⁵⁰

Three-fifths of those polled in a recent survey expressed the view that the state "should not interfere in their private life."⁵¹

Support for Communism and for Russia's Communist Party continues to decline. Thus, for example, Communist Party leader Gennady Zyuganov received two million fewer votes in Russia's 2000 presidential election than he received in the first round of the 1996 election.⁵² Russia's Communist Party does not have a bright future, with the most support for Soviet-style socialism evidenced among those over 55.⁵³

Evolving Political System

Seeds of hope exist within Russia's evolving political system as well. A majority of Russians have come to see elections as an essential component of political life. Moreover, as Russians have become more experienced voters, they have been increasingly unwilling to "waste" their votes on small parties that do not achieve significant representation in the parliament.⁵⁴ Extremist parties have either adjusted their platforms or suffered marginalization and in some cases extinction.⁵⁵

Russia's political system has also stabilized in the wake of Russia's recent parliamentary and presidential elections. Relations between the executive and legislative branches, always strained under Yeltsin, have improved to some degree. President Yeltsin appeared before the Duma rarely--usually to urge the Duma to approve his choice of Prime Minister or approve the budget--and was often critical, accusing the Duma of "political anarchy" when it challenged his authority.⁵⁶ President Putin has had significantly greater success to date in working with the legislature to achieve key goals.



A BRIGHT DAY: A troupe of young dancers from Siberia visit St. Basil's, on a warm Saturday, June 4, 2000--the day President Clinton met nearby in the Kremlin with Russia's newly-elected President. The girls are part of an ensemble called "Mechta" ("dream"), from the city of Omsk, and had been performing in Moscow. The younger generation in Russia--less influenced by the legacy of Soviet Communism than its parents--has a positive attitude about what Russia could become and are "less inclined to pine for the Soviet Union" than older generations. AP Photo/J. Scott Applewhite

The government's new support in the parliament--and a more general political realignment in the Duma--have also significantly improved the prospects for the passage of long-needed legislation to repeal Soviet-era controls and subsidies and establish more sturdy protections for private property rights. Thus far, Putin and his government have been able to muster what Russian observers call a "dynamic majority" in the Duma to pass government-sponsored bills, notably including a 13% flat income tax in July 2000.

Deep concerns remain over Russia's future direction. The U.S. Congress has already expressed strong opposition to Russian government attacks on press freedoms, and there are serious questions about the government's commitment to civil and political liberties--particularly in light of the extraordinary brutality of the war it has pursued in Chechnya. But whatever the government's policies may become, there can be little doubt that Russia's people have not given up their support for democracy and individual liberty. If Russia eventually succeeds in becoming a free enterprise democracy, this, too, will be one of the important reasons.

Conclusion

In the most narrow sense, Secretary of State Madeleine Albright is correct in stating that Russia is not America's to win or lose. Russia is a great nation, and must determine her own course. If it is to make a successful transition from nearly a century of Communism to a free enterprise democracy built upon individual decision making and individual rights, it will be because of Russians' initiative and determination to do so.

Yet Albright's comment seems to imply that America should wash its hands of responsibility for Russia's course. In that, she is profoundly wrong. Why should Russia not be able to look to the United States for advice and assistance in constructing a free enterprise economy? The complete domination of every sphere of economic life by the Soviet state and the Communist Party had a profound impact on the Russian experience. No living Russian who did not escape the Soviet police state had any experience with an economic life based on the sanctity of private property, private contract, and private initiative.

As the world's only remaining superpower at the conclusion of the Cold War, and the leading free enterprise democracy on earth, the United States offered the quintessential model for Russia's future, if Russia chose freedom. It was then, and is now, America's opportunity--if not our duty--to respond.

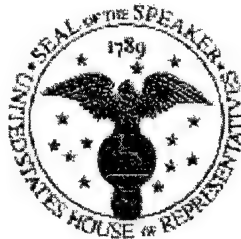
Never have so many millions of people had so much to gain so quickly as did the citizens of the Russian Federation in December 1991. Russia's obvious and plentiful national assets--from its people, to its rich culture, to its expansive territory, to its natural resources--had been forcibly rendered unproductive by Soviet Communism. The sudden destruction of that perverse system, as if by a lightning bolt, had literally set Russia free.

Despite the fact that neither the Russian government nor the United States has responded adequately to this historic opportunity, the new freedom that individual Russians enjoy has been increasingly consequential throughout this decade. Whereas individual initiative was stifled in the Soviet Union, it is alive and growing in today's Russia. Spirituality was stamped out by the Communist Party, but is thriving today. And while the most basic tools for the individual creation of small businesses are not yet at hand, millions of young people have made it clear that starting one's own business is the new "Russian dream."

America and Russia have lost a decade. The growing estrangement of Russia from the United States, the incipient hostility to American interests reflected in Russia's foreign policy, and the telltale signs of authoritarianism in the post-Yeltsin era provide ample evidence that the world is a more dangerous place because U.S. foreign policy was weak, and did not lead. But it is not too late for the United States to stop impeding and start assisting the transition from Communism to free markets, from authoritarianism to

democracy, and from disorder to order. It simply requires that we begin anew--but this time with a clear purpose.

RECOMMENDATIONS



The Advisory Group's recommendations for U.S.-Russia policy proceed from ten principles:

- * Russia's immense economic potential as a trading partner, its ability to influence Europe, the Middle East, South and Central Asia, and the Far East, its military importance as a friend rather than a foe, and the fundamental commonality of Russian and American interests make the U.S.-Russia relationship of continued central importance in U.S. foreign policy. Russia's importance in the world is multidimensional, and is not confined to its current or potential military power.

- * The United States, our friends and allies, and the world are more threatened today by Russian economic, political, and social weaknesses than by Russian strength. Virtually every major problem in U.S.-Russia relations is directly or indirectly traceable to Russia's failure to complete a successful transition from Communism to free enterprise, and from a Soviet police state to a stable, securely democratic, and free society. U.S. policy should never seek to prolong or exploit Russia's weakness, but should seek to empower Russia to build upon her strengths.

- * The unprecedented, across-the-board deterioration in Russian perceptions of the United States and of democracy and free enterprise during the past eight years represents a United States foreign policy disaster of the first magnitude. Unmitigated, the implications could be comparable to the collapse of democratic values in interwar Germany, or the early and mid-20th century triumph of Communist dictatorships in Russia, China, and Central Europe.

* It is a vital interest of the United States to revive the strong relationship with the newly-independent Russian Federation that existed in 1992. Despite the extent of the damage U.S.-Russia relations have suffered during the intervening years, the United States must not perceive this damage as irreversible, nor that the current impasse in relations with Russia is intractable, nor that Russia's negative perceptions of the United States, democracy, and free enterprise are immutable.

* A stable, secure, democratic, and prosperous Russia is a vital American interest. Therefore, essential elements of rebuilding the U.S. relationship with Russia are an immediate focus upon the creation of the legal foundation for a free enterprise economy premised upon private economic decision making and the creation of intermediary financial institutions that serve the people of Russia rather than a corrupt elite. The counterproductive nature of American economic advice and aid in the past--in particular, support for massive, virtually unconditional subsidies to the Russian central government--should cause the United States to rethink the economic strategies it has promoted, *not* to abandon efforts to help Russia build a strong and free economy. These efforts must, however, be pursued in a different spirit. The Clinton administration's attempts to macromanage Russia's economy have harmed Russia and U.S.-Russia relations, just as Russian maintenance of Soviet-era controls on the economy have done. American policy must proceed from the premise that individual Russians--not the Russian government, *or* the U.S. government--must create their own economic future.

* U.S. friendship with Russia requires a clear articulation of American interests, values, and policies. It requires that the U.S. government speak frankly when and if Russia engages in activities harmful to America's national interests. This does not require hectoring or seeking unilateral advantage, and does not preclude acceptable compromises of honest differences. It *does* preclude the Clinton administration's lack of directness concerning such serious bilateral disputes as weapons proliferation to Iran, a U.S. defense against ballistic missiles, the war in Kosovo, the war in Chechnya, or NATO enlargement. By protracting negotiations over such fundamental issues and by failing to proceed with the execution of American priorities (as, for example, in its dragging out of NATO enlargement over more than the entirety of two presidential terms), the Clinton administration raised false hopes in Moscow, damaged American credibility, and significantly strengthened Russian hostility. An honest acceptance of such differences would have been healthier for U.S.-Russian relations. Honesty and forthrightness are far better long-term guarantees of friendship than disingenuous temporizing.

* It is vital that the U.S. government avoid exaggeration of success and concealment of failure in U.S.-Russia relations. Such practices have been a hallmark of U.S. Russia policy during the 1990s. Misleading the American people--for example, about the empty "detracting" agreement that President Clinton and Vice President Gore trumpeted to the public--ultimately engenders cynicism and undermines the necessary base of American public support for stronger U.S.-Russian relations.

* Building a successful Russia policy requires the full attention and active direction of the President of the United States. President Clinton failed to make the reconstruction of Russia at the end of the Cold War *his* priority. He failed to devote sufficient time and sustained attention to formulating a Russia policy. He failed to promote the Russia policy of his subordinates to the Congress, to the American people, and to others within his own

executive branch. Each failure made the U.S. policy-making process less disciplined and less focused. These failures contributed directly to economic and foreign policy debacles in Russia. The President must lead.

* The United States must build a broad base for its policy in Russia, extending beyond relationships among a handful of executive branch officials to a broad spectrum of government officials, factions of the State Duma, regional governors, legislators and political leaders, and, most importantly, Russian private citizens and private-sector organizations interested in developing not oligarchy but free enterprise.

* The United States and Russia share equal responsibility for our future relations. The Russian government should be expected to forthrightly advance the Russian national interest. But as we seek close relations with Russia we must do so on the basis of American values and international norms such as respect for sovereignty and the inviolability of national borders. A willingness to accept America's legitimate interests as a basis for a bilateral relationship based on mutual advantage remains an essential ingredient of successful U.S.-Russian relations.

With these principles in mind, the Advisory Group recommends:

1. Engage Russians across the political spectrum.

During the Clinton administration, a small group of American and Russian executive branch officials dominated the U.S.-Russia relationship. The Advisory Group recommends that the next administration undertake a much broader engagement across the Russian political spectrum and institutions of government. This engagement would extend to the full range of relevant executive branch decision makers and the main factions in the Duma, and also include the regional governors, regional legislatures, mayors, and other local government officials. The range of American interlocutors for Russia should also be expanded beyond the U.S. executive branch. The Advisory Group recommends the creation of institutional relationships and opportunities for increased communication and cooperation at all levels of government. The existing Duma-Congress Study Group is a model for creating institutional relationships between American and Russian governors, mayors, and legislators.

Of even greater importance, however, is an expansion of the U.S. government's engagement beyond the political sphere to the private sector, including the business community, non-governmental organizations, the academy, think tanks, the clergy, and rural and agricultural sectors in all regions of the Russian Federation.

The broader and deeper engagement these initiatives would promote is a prerequisite for U.S. policy makers to maintain perspective on events in Russia, and will give a wider range of Russians a direct account of U.S. policy and motivations.

2. Give priority to private, not government, solutions.

The most basic failing of U.S. policy during the Clinton and Yeltsin administrations was the emphasis on strengthening the Russian central government, instead of focusing on the essential task of limiting the

role of the state in Russia and constructing the basis for a free enterprise system in which private individuals order economic affairs. The United States should redirect its efforts into assisting Russia to identify laws and regulations that continue to place the state in a central economic role in Russia, and to replace them with laws to fully legalize: private property; limited-liability private partnerships and corporations for the pursuit of commercial and agricultural enterprises of all types; private insurance; private intellectual property; private commercial, investment, and merchant banks; and private capital markets. This project should be undertaken in cooperation with the Duma, the executive branch, and regional executive and legislative branches--and should be pursued with more urgency than has thus far been the case.

Russia's private sector will not flourish, and foreign money will not be invested in sufficient quantity, until a world-class banking system, which pays and charges free-market interest rates and otherwise conforms to international norms of commercial behavior, is established, and until domestic and foreign investors enjoy reliable legal protections. The United States should stand ready to assist in the creation of such banking legislation to the extent requested by Russia or Russians.

The United States should assist in the further development of a uniform commercial code in the Russian parliament and each of Russia's 89 regional legislatures. Such a code remains necessary to provide a basic set of rules that can be relied upon by any person who wishes to participate in the Russian marketplace.

3. Engage the Russian people, not just the Russian government.

U.S. relations with Russia should be more broadly based than institutional relations among governmental bodies. The Advisory Group endorses expansion of existing people-to-people exchange programs such as the Library of Congress' Russian Leadership Program and the Center for Citizen Initiatives program, as well as programs run by the State Department such as the Fulbright Program, the Internet Access and Training Program, the Russian-U.S. Young Leadership Program, and the International Visitors Program. Such programs give individual Russians the opportunity to observe American democracy and the market economy, while helping Americans better understand the opportunities and challenges in Russia, and allowing both host and guest to share experience and expertise. Such programs are particularly valuable to the extent that they promote contacts with Russians living outside of the capital. The Advisory Group particularly endorses an expansion of the number of Russian exchange students at American universities, especially where the exchange programs assist students studying economics, business, marketing, and agriculture.

4. Enlist the support of the U.S. private sector for the establishment of a cooperative surveying and titling project in each of Russia's 89 regions on a far more urgent basis than has thus far been undertaken.

The enactment of sturdy legal protections for private property, privately-made contracts, and commercial transactions is a fundamental prerequisite to the development of free enterprise in Russia. Entrepreneurial activity and the growth of competitors to the "privatized" monopolies will be severely stunted without the capital that private property rights will make available to the Russian economy.

The availability of marketable title to privately-owned real estate is an essential--and still

missing--ingredient of the free enterprise system that Russia seeks to develop. Russia's land is a source of enormous potential wealth, both as security for commercial lending and as a valuable asset in its own right for the development of Russian housing, agriculture, commerce, and recreation. To permit Russia's citizenry to tap this existing source of wealth, a nationwide effort must be undertaken to precisely describe the boundaries and ownership history of all potentially marketable state-owned and privately-owned land in Russia--and to do so on a far more accelerated basis than has been considered feasible in recent years.

The legal descriptions of surveyed property and the complete record of its ownership, including all legally valid claims, liens, and rights of others besides the recorded landowner, should be published on the Internet, as well as stored in publicly-accessible land title registries within each region. The project should draw upon the expertise of American surveyors, cartographers, abstracters, title insurers, and other real estate, civil engineering, and land title professionals, and should have as its objective the establishment of the basis for a flourishing competitive market in private title insurance and real estate services throughout Russia by 2005.

5. Make U.S.-Russia relations a presidential responsibility of first importance.

The Advisory Group recommends that the next president and secretary of state take direct responsibility for U.S. relations with Russia, instead of diminishing their importance by delegating plenary responsibility to subordinates. The Advisory Group further recommends that the focus on summits be replaced with regular and frequent interactions similar to the relationships the U.S. maintains with its G-7 partners. This will broaden the scope of U.S.-Russia relations beyond the obvious issues where the two countries have diverging views, as well as promoting reasonable compromises that serve American interests on such issues.

6. Place greater reliance on available sources of U.S. intelligence and analytic capability regarding Russia.

During the Clinton administration, information developed by the U.S. government, either by the intelligence community or by the American Embassy in Moscow, was routinely disregarded if it clashed with the administration's policy views or political interests. The Advisory Group recommends that the next administration not only give more attention to reporting on the effects of its policies, but also strengthen intelligence and analytic capabilities. The deconstruction of a large part of the intelligence community's analysis and collection capability on Russia has proven to be a serious mistake. Russia's enormous strategic importance requires that it receive the most thorough attention and analysis. Congress should direct, through the intelligence oversight committees of the House and Senate, additional resources to rebuild our Russia-related intelligence capabilities--not to Cold War levels, but to levels reflecting Russia's relative importance.

The United States government should also give appropriate weight to the observations of Americans in Russia--including U.S. Embassy personnel, members of the intelligence community, U.S. correspondents writing from Russia, and private individuals--to provide for more thoughtful analysis of facts, trends, political developments, and financial, academic, and social information concerning Russia.

7. Consolidate U.S. assistance programs.

The Advisory Group, recognizing that the Clinton administration's macroeconomic assistance for Russia has failed, recommends the consolidation of U.S. assistance into a few core projects that will accelerate Russia's transition to free enterprise, including exchanges, training and compensation for judicial branch officials, enactment of legislation to establish enforceable property rights and a commercial code, and privately-owned housing, and building on regional initiatives started under the Freedom Support Act. Such aid should be properly directed whenever possible toward the regions, rather than Moscow, and should be focused on the creation of a broad-based Russian middle class.

8. Improve humanitarian assistance for Russia's health problems.

In light of the deepening health challenges following Russia's 1998 economic collapse, the Advisory Group recommends that the United States consider ways to improve the effectiveness of the pharmaceutical, medical, and health-care assistance provided to Russia, taking particular care to do no further harm to the only long-term solution to such challenges--the inclusion of these sectors in a growing market economy.

9. Protect the Russian people from further governmental abuse of IMF lending.

The Russian government's dangerous accumulation of debt via the International Monetary Fund and other international lenders, and the misapplication of that money through corruption within and without the Russian government, contributed to the total collapse of Russia's economy in 1998. It has also created a heavy burden of debt. The Advisory Group notes that for these reasons many reform-minded Russian officials have strongly advocated an end to further borrowing from the IMF.

The Advisory Group recommends that the United States condition any further support in the IMF of new Russian sovereign borrowing, and through its participation in the IMF Board of Governors work to condition any such lending to Russia (whether for refinancing of existing Russian debt or the extension of any new credit), on the enactment of legal reforms needed to establish a free enterprise economy in Russia, and to stem capital flight and money laundering. Among the other conditions that should be sought are an end to Russian barriers to international trade and cooperation with U.S. and other law enforcement authorities in combatting money laundering.

In addition, in evaluating its support for lending by the IMF and other international financial institutions, the U.S. should insist on Russian cooperation in efforts to curtail the use of off-shore havens for "hot-money" transfers, and to identify and prosecute money laundering schemes. Such cooperation in rooting out money laundering would do much to reduce capital flight and instill foreign and domestic confidence in Russian financial institutions.

Any such lending agreement should itemize with specificity the proposed use of any loan proceeds, which should not include the financing of operating deficits of the Russian central government, subsidization of state-owned or private industry, or investment in state-owned or commercial projects. It should also include effective accounting and monitoring controls.

Finally, in considering whether to support such further lending the United States should assess Russia's progress towards seeking a political solution to the war in Chechnya, an end to Russian subsidies and loans to Serbia, Belarus, and Cuba, and the cessation of exports of potentially destabilizing weapons to countries of concern.

10. Consider only conditional rescheduling of Russia's inherited Soviet-era debt.

The Advisory Group recommends, in light of Russia's existing foreign reserves, that the United States oppose outright debt forgiveness for Russia, but offer support for conditionally rescheduling that portion of Russia's external debt incurred by the Soviet Union before 1992. Because the bulk of Russia's debt is owed to governments other than the United States, the Advisory Group specifically recommends that the United States not exert pressure upon other allied governments to agree to debt rescheduling, and further recommends that to the extent rescheduling is considered, the United States suggest meaningful and enforceable conditions, which should include a political solution to the war in Chechnya; an end to Russian subsidies and loans to Serbia, Belarus, and Cuba; the cessation of exports of potentially destabilizing weapons to countries of concern; an end to Russian barriers to international trade; and cooperation with U.S. and other law enforcement authorities in combatting money laundering.

11. Work to combat the spread of Russian crime abroad, and its influx into the United States.

The Clinton administration has failed to adequately respond to requests for assistance from international prosecutions of money laundering activities connected to Russia. The Advisory Group recommends that to combat the spread of crime from Russia the U.S. government improve cooperation with honest foreign law enforcement.

12. Repeal Cold War-era laws that impede relations with Russia.

The Advisory Group recommends that the committees of jurisdiction in the U.S. Congress carefully examine all aspects of the current statutory framework governing U.S. relations with Russia with the intention of removing outdated Cold War-era restrictions on full and normal U.S.-Russian relations. Much work in this area was accomplished by the 1993 Friendship Act, which sought to remove many of the legal impediments to normal relations with Russia. Congress should complete the process by re-examining remaining provisions imposed during the Cold War.

13. Promote Russia's integration into the world economy.

The Advisory Group recommends that the United States promote Russia's integration into the world economy. Today, many Russian policies directly or indirectly discourage foreign investment and international trade. The United States should encourage Russia to adopt and enforce laws and policies that will allow Russia to enjoy the benefits of participation in the international marketplace. The United States should work with Russia for the adoption and enforcement of laws and policies that would enable Russia to accede to the World Trade Organization under appropriate commercial terms.

14. Review the status of human rights in Russia.

The Advisory Group recommends in light of developments in Chechnya, as well as questions concerning the state of press, political, and religious freedoms in Russia, that Congress and the executive branch conduct a comprehensive review of the status of human rights and democracy in Russia (including in particular the treatment of minorities and religious freedom), building on the work of the U.S. Commission on International Religious Freedom, the Advisory Committee on Religious Freedom Abroad, the Annual Report on International Religious Freedom called for by the International Religious Freedom Act of 1998, and the State Department's annual country report on human rights.

15. Forthrightly defend America's interests.

The Clinton administration has delayed and undercut vital national security initiatives, including a U.S. national missile defense, in a failed attempt to palliate the Russian government's opposition. These efforts have damaged America's national interest without diminishing--indeed, while actually increasing--Russian opposition. The next President should seek to negotiate a new security framework with Russia that allows the United States to defend itself effectively against the threat of ballistic missile attack. Previous agreements with the Soviet Union during the Cold War were negotiated in a bipolar strategic environment that no longer exists. The global proliferation of ballistic missiles and weapons of mass destruction necessitates a rethinking of this Cold War security paradigm. The United States should take all necessary actions to ensure that Americans and our allies and friends around the world are defended against this real and growing ballistic missile threat. To the maximum extent possible, this should be done cooperatively with Russia, in a way that makes clear that such defenses are not intended to secure unilateral advantage or to threaten Russia. However, U.S. policy should be clear and clearly articulated: the United States will not allow its people to be held hostage to the threat of ballistic missile attack.

The United States should forthrightly support continued enlargement of NATO, and should not mislead the Russian government through repetition of the Clinton administration's disingenuous promises of either an explicit or tacit veto over any nation's accession to the alliance, or of alliance activities. NATO and NATO enlargement promote stability and democracy, strengthen international peace, and do not threaten the legitimate interests of Russia or any other country. The United States should also strongly support the independence of the Baltic states, Ukraine, and the other nations that became independent at the fall of the Soviet Union. Their continued full independence and sovereignty are vital to international peace and security and a key goal of the United States.

NOTES

Chapter 1

1 Craig Whitney, "Gorbachev Predicts an Accord on Budget," N.Y. TIMES, Jan. 4, 1991, p. A6.

2 Andrei Orlov, "Soviet Parliament Discusses Federal Budget," TASS, January 11, 1991.

3 Andrew Katell, "Yeltsin Calls for Ligachev's Resignation," Associated Press, May 30, 1988.

4 BORIS YELTSIN, THE STRUGGLE FOR RUSSIA (New York: Random House, 1994), p. 36.

5 In January 1990, to check the growing nationalist movement in Azerbaijan, Gorbachev sent a large contingent of Soviet troops to Baku. The Soviet Army killed 134 people and wounded more than 600. Today, the people of Azerbaijan remember this as "Black January."

6 In Tbilisi, on April 10, 1989, Soviet troops killed 20 Georgians, and injured more than 200, as they attempted to disperse thousands of nationalist demonstrators. These events are remembered today in Georgia as the "Tbilisi Massacre."

7 DAVID REMNICK, LENIN'S TOMB (New York: Vintage, 1994), p. 388.

8 *Id.* at p. 389. Remnick reported that word of Bloody Sunday got back to Moscow not via the primary Moscow media outlets, but through Radio Liberty and the BBC. *See also* Cathy Young, "Soviet Democrats Aren't Backing Down," NEWSDAY, Feb. 5, 1991, p. 37.

9 JUDY SHELTON, THE COMING SOVIET COLLAPSE (New York: Free Press, 1989).

10 *See* Sergei Roy, "The Economics of Suicide," MOSCOW NEWS, Sept. 22, 1999, p. 36.

11 Associated Press, Feb. 9, 1991.

12 *Id.*

13 John-Thor Dahlburg, "West is also Likely to Ignore Lithuania Vote," L.A. TIMES, Feb. 11, 1991, p. A4.

14 Chairman of the Council of Nationalities of the U.S.S.R. Supreme Soviet Rafik Nishanov explained the referendum this way in an interview a few days before the vote: "The main purpose of the forthcoming Referendum is to give every Soviet man and woman a chance to express his attitude to the Union of Soviet Socialist Republics, to say 'yes' or 'no' to our new homeland--the renovated federation of equal sovereign republics, where the rights and freedoms of all nationalities will be fully guaranteed." Official Kremlin International News Broadcast/PRAVDA, Mar. 13, 1991, via Federal Information Systems Corp./NEXIS.

15 Esther B. Fein, "Russians' Big Worry: New Sales Tax," N.Y. TIMES, Mar. 18, 1991, p. A10.

16 *Id.*

17 Associated Press, Apr. 29, 1991.

18 Elizabeth Shogren, "Soviet Georgia Declares its Independence," L.A. TIMES, Apr. 10, 1991, p. A8.

19 *Id.*

20 *Id.* *See also* "Statement by Georgian Commission on Deaths in Tbilisi Rally," in which the commission concluded that the massacre "was a punitive operation amounting to well organized slaughter of innocent people. It was carried out with particular brutality and involved the use of banned chemicals. It bore the hallmarks of an international crime and, specifically,

of a crime against humanity."

21 Elizabeth Shogren, "Soviet Georgia Declares its Independence," L.A. TIMES, Apr. 10, 1991, p. A8. A year earlier, on April 3, 1990, Gorbachev had nullified Article 72 of the 1977 "Brezhnev" constitution, which purported to grant the republics the right freely to secede from the Soviet Union. See text of 2,700-word law in PRAVDA, Apr. 7, 1990; see Brian Crozier, "Soviet constitution," Letter to the Editor, THE TIMES (LONDON), Mar. 15, 1993. Instead, Gorbachev set out an impossibly bureaucratic procedure for secession—a process so tortuous it was never commenced by any of the seceding republics except Armenia.

22 Francis X. Clines, "Ukrainians Declare Republic Sovereign Inside Soviet System," N.Y. TIMES, July 17, 1990, p. A1.

23 Serge Schmemmann, "Gorbachev Agrees, Sort of, to Negotiate the State of the Union," N.Y. TIMES, Apr. 28, 1991, p. A6.

24 "The Soviet Economy on the Brink," ECONOMIST, Mar. 16, 1991, p. 72.

25 *Id.*

26 Patricia Lee Dorff, ed., "Chronology 1991: The Soviet Union and Eastern Europe," FOREIGN AFFAIRS, 1991/1992 AMERICA AND THE WORLD.

27 Stephen Sestanovich, "Fiddler on the Roof: Gorbachev's Balancing Act," NEW REPUBLIC, May 27, 1991, p. 19.

28 Thom Shanker, "Soviets to Send Some Supplies to Lithuania," CHI. TRIB., June 14, 1990, p. A1.

29 Ann Imse, "Gorbachev Proposes Union of Sovereign States," Associated Press, June 13, 1990.

30 IZVESTIYA, Aug. 13, 1990.

31 Editorial, "Baltic Breakthrough," ORANGE COUNTY REGISTER, June 14, 1990, p. B10.

32 Alison Mitchell, "Yeltsin's Sweeping Victory; City Voters Stick it to 'Leningrad,'" NEWSDAY, June 14, 1991, p. 7.

33 Thom Shanker, "Old Russian City Switches Heroes and Its Name," CHI. TRIB., June 14, 1991, p. 24.

34 Patricia Lee Dorff, ed., "Chronology 1991: The Soviet Union and Eastern Europe," FOREIGN AFFAIRS, 1991/1992 AMERICA AND THE WORLD.

35 Carey Goldberg, "Soviet Officials Accused of Capitalizing on Bargain Country Homes," L.A. TIMES, July 15, 1991, p. 4.

36 *Id.*

37 Amy Borrus and Rose Brady, "The Soviets are Looking to Swap Reforms for Aid. Again," BUS. WEEK, June 3, 1991, p. 30.

38 John Lloyd and Lionel Barber, "The Moscow Summit: Bush Stresses need to Unleash Business Spirit," FINANCIAL TIMES (London), July 31, 1991, p. I3.

39 *Id.*

40 IZVESTIYA, July 11, 1991 (BBC translation).

41 *Id.*

42 See *infra* Chapter 3.

43 Andrew Rosenthal, "The Soviet Crisis, Bush Gamble: Coup Can Be Reversed," N.Y. TIMES, Aug. 21, 1991, p. A11.

44 MIKHAIL GORBACHEV, MEMOIRS (New York: Doubleday, 1995), p. 656.

45 Of course, such a step would also make the post of union president obsolete, completing the political destruction of

Gorbachev.

46 Alison Mitchell, "Yeltsin Abandons Union: Russian leader proposes commonwealth, undercuts Gorbachev," N.Y. TIMES, Dec. 8, 1991, p. A7.

47 The Commonwealth of Independent States was created by the leaders of the three Slavic Republics (President Boris Yeltsin, Ukrainian President Leonid Kravchuk, and Byelorussian Parliamentary Speaker Stanislav Shuskevitch) in Viskouoi, a hunting lodge near the Polish-Belarus border. The joint communiqué committed the leaders to "unified control over the Soviet Union's 27,000 nuclear warheads."

48 The Intelligence Community, and particularly the CIA, have been unfairly criticized for allegedly failing to predict the fall of the Soviet Empire and the rise of Russia. In fact, a 1985 National Intelligence Estimate stated:

The U.S.S.R. is afflicted with a complex of domestic maladies that seriously worsened in the late 1970s and early 1980s. Their alleviation is one of the most significant and difficult challenges facing the Gorbachev regime. ...

Over the next five years, and for the foreseeable future, the troubles of the society will not present a challenge to the system of political control that guarantees Kremlin rule, nor will they threaten the economy with collapse. But, during the rest of the 1980s and well beyond, the domestic affairs of the U.S.S.R. will be dominated by the efforts of the regime to grapple with these manifold problems. ...

The underlying cause of most of these problems is the repressive nature of a political system that discourages initiative throughout the society on which economic and social progress depend, and that limits the private freedom Soviet citizens desire. ...

Gorbachev has achieved an upswing in the mood of the Soviet elite and populace. But the prospects for his strategy over the next five years are mixed at best. ...

Bruce D. Berkowitz and Jeffrey T. Richelson, "The CIA Vindicated: The Soviet Collapse was Predicted," NAT'L INTEREST, Fall 1995. As the collapse approached, the CIA assessment became so grave that in September 1989 the Bush administration appointed a secret contingency planning group chaired by director of Soviet Affairs Condoleezza Rice to deal with the failure of Gorbachev's government. Cf. Vice President Al Gore's reaction to intelligence data, Chapter 6, *infra*.

49 President Reagan always considered the triumph of freedom to be inevitable:

I have discussed on other occasions the elements of Western policies toward the Soviet Union to safeguard our interests and protect the peace. What I am describing now is a plea and a hope for the long term--the march of freedom and democracy which will leave Marxism-Leninism on the ash heap of history as it has left other tyrannies which stifle the freedom and muzzle the self-expression of the people.

Address to the Members of Parliament, London, June 8, 1982.

In a speech that today reads as prophetic, President Reagan also emphasized the economic problems faced by the Soviet Union and what he viewed as a mission "to preserve freedom as well as peace."

50 See, e.g., Strobe Talbott, "Rethinking The Red Menace," TIME, Jan. 1, 1990, p.66 ("The doves in the Great Debate of the past 40 years were right all along"); Talbott, "Brezhnev's Legacy," TIME, Nov. 22, 1982, p. 31. In the same article Talbott derided at length a whole succession of American administrations of both parties for attempting to influence the composition and attitudes of the leadership in Moscow--an ironic criticism in light of Talbott's unprecedented involvement in Russian internal politics during the Clinton administration.

Chapter 2

1 Within the flourishing Soviet black market, American-made jeans, cigarettes, and other Western products commanded the highest prices on the streets of Moscow and other Soviet cities. By the end of the 1980s, the Soviet Union was quietly--and

illegally--undergoing a consumer revolution as the demand for and acquisition of Western products became widespread.

2 The widespread need to commit "economic crimes"--offenses that would *not* be crimes in a market economy--had the unfortunate effect of diminishing respect for the rule of legitimate law even after Russia abandoned Communism.

3 NICOLAI N. PETRO, *RUSSIAN FOREIGN POLICY* (New York: Longman, 1997) p. 131.

4 European Bank for Reconstruction and Development, *Transition Report Update*, p. 75.

5 In fact, the use of the ruble by several of the new nations of the former Soviet Union left Russia with little practical control over its money supply. It was not until November 1992 that Ukraine introduced its own currency. Other nations followed suit over the next few months, but the damage was done.

6 YEGOR GAIDAR, *DAYS OF DEFEAT AND VICTORY* (Seattle: Univ. Wash. Press, 1999).

7 ROSE BRADY, *KAPITALIZM* (New Haven: Yale Univ. Press, 1999), pp. 29-30, 36-37.

8 In January 1991, the Russian Supreme Soviet proposed a question on a national referendum for a directly elected presidency. In March, Russians voted for constitutional reform, and on April 24 the Russian Supreme Soviet approved a new law on the Presidency. Yeltsin was subsequently elected President.

9 Mary Dejevsky, "Yeltsin Gets Free Hand for Reforms," *THE TIMES* (London), Nov. 2, 1991. Yeltsin was given additional power to appoint governors in the oblasts and issue decrees that could override existing laws and reorganize the government without going through parliament.

10 See Thomas Ginsberg, "New Russian Prime Minister Will Soften Reforms," Associated Press, Dec. 14, 1992; *WHO'S WHO IN RUSSIA AND THE CIS REPUBLICS*, Vladimir Morozov, ed. (New York: Henry Holt and Co., 1995), p. 54. The centrist Civic Union faction, composed of Arkadii Volsky's Union of Industrialists and Entrepreneurs, Vice President Alexander Rutskoi's People's Party of Free Russia, and Nikolai Travkin's Democratic Party of Russia, played a key role in Chernomyrdin's appointment.

11 BORIS YELTSIN, *THE STRUGGLE FOR RUSSIA*, Catherine A. Fitzpatrick, trans. (New York: Times Books, 1994), pp. 197-201. "Gaidar had no chance of being approved by the Congress, so, given the reality of the situation, I settled on Viktor Chernomyrdin. Once again, he seemed to be a compromise figure ... I was dictated--let's face it--by regrettable necessity." *Id.* at 200.

12 See *infra*, Chapter 5.

13 See Thomas Ginsberg, "New Russian Prime Minister Will Soften Reforms," Associated Press, December 14, 1992; *WHO'S WHO IN RUSSIA AND THE CIS REPUBLICS*, Vladimir Morozov, ed. (New York: Henry Holt and Co., 1995.), p. 54; APS Review Oil Market Trends, "From Privatisation to Restructuring the Petroleum Sector to Gazprom," Aug. 7, 2000 (available on NEXIS).

14 *Id.*

15 Karen LaFollette, "Soft Assistance for Russian Hard Reform," *The Institute for Political Economy*, 1993.

16 Alexander Rahr, "The First Year of Russian Independence," *RFE/RL Research Report*, Jan. 1, 1993, p. 54.

17 *HUMAN RIGHTS COUNTRY PRACTICES* (Washington, DC: Department of State, Jan. 1993), p. 884.

18 *FREEDOM IN THE WORLD--1992-1993* (New York: Freedom House, 1993), p. 428.

19 *HUMAN RIGHTS COUNTRY PRACTICES*, pp. 889, 890.

20 *Id.*, p. 888.

21 *FREEDOM IN THE WORLD--1992-1993*, p. 428.

22 *HUMAN RIGHTS COUNTRY PRACTICES*, p. 885.

23 FREEDOM IN THE WORLD--1992-1993, p. 428. Ironically, the fact that the Russian Federation permits complete freedom of emigration has never been recognized in U.S. law. The 1974 Jackson-Vanik amendment, which imposed special scrutiny on Soviet emigration policy, still applies to Russia.

24 Rahr, *Id.*, p. 51.

25 Testimony of Boris Fyodorov, Joint Meeting of the Speaker's Advisory Group on Russia and the House Policy Committee, July 12, 2000. To prevent gaps in legal regulation during the transition period, Russia relies on Soviet-era legislation. Soviet laws and regulations are applicable when Russian domestic law is silent and Soviet law does not conflict with other existing Russian law. These Soviet acts are considered transitional and are in force only until the Russian Parliament enacts replacement legislation. The application of Soviet legislation on Russian territory is governed by the 1990 Law on the Application of Acts and Organs of the U.S.S.R. on the Territory of the R.S.F.S.R. (Russian Soviet Federal Socialist Republic) and the Supreme Soviet's decree ratifying the Agreement on the Creation of the Commonwealth of Independent States. According to these enactments, Soviet laws apply only if they do not contradict the legislative acts of the Russian Federation adopted after June 12, 1990, when Russia proclaimed its independence. The 1993 Constitution adopted the same approach. In the area of land use alone, several Soviet-era laws are partially or fully enforced.

26 James Billington's works on Russia include: THE FACE OF RUSSIA: ANGUISH, ASPIRATION, AND ACHIEVEMENT IN RUSSIAN CULTURE (1998); RUSSIA TRANSFORMED: BREAKTHROUGH TO HOPE: MOSCOW, AUGUST 1991 (1992); and THE ICON AND THE AXE: AN INTERPRETIVE HISTORY OF RUSSIA (1970).

27 James Billington, Remarks to the Speaker's Advisory Group on Russia in Executive Session, June 14, 2000.

28 See, e.g., Larry Rickman, "Russia Plans to Remove Remaining Price Subsidies," Associated Press, Feb. 27, 1992; Howard Witt, "New Face of Russia: A Year after Coup, Ordinary Citizens Adapt to Change," CHI. TRIB., Aug. 16, 1992, p. C1.

29 For example, in the poll reported in Itar-TASS News Digest, July 24, 1992, good relations with the United States were second only to Russian ties with other countries of the former U.S.S.R., where some 25 million ethnic Russians resided.

30 "'Santa Barbara' Receives Rave Reviews in Russia," PR Newswire, Feb. 21, 1992.

31 "Moscow Days and Nights; Clash of Cultures," MACLEAN'S, Feb. 15, 1993, p. 28.

32 See, e.g., DAVID REMNICK, RESURRECTION: THE STRUGGLE FOR A NEW RUSSIA (New York: Random House, 1997), pp. 44-45.

33 "Summit at the U.N.; Excerpts from Speeches by Leaders of Permanent Members of U.N. Council," N.Y. TIMES, Feb. 1, 1992, p. A5.

34 Although President Bush signed the START II treaty less than one month before the inauguration of President-elect Clinton, Gov. Clinton was fully briefed on the agreement and "encouraged" the Bush administration to sign the treaty. Gov. Clinton also said that he was "fully supportive" of efforts to sign the agreement before he entered office. See Elaine Sciolino, "U.S. and Russia Agree on Atomic Arms Pact Slashing Arsenals and the Risk of Attack," N.Y. TIMES, Dec. 30, 1992, p. A1. President Clinton's efforts to reach arms control agreements lacking such broad bipartisan support before he leaves office are described in Chapter 10 *infra*.

35 Serge Schmemmann, "Summit in Moscow," N.Y. TIMES, Jan. 4, 1993, p. A1.

36 Michael Dobbs and Don Oberdorfer, "Yeltsin Appeals for American Aid," WASH. POST, June 18, 1992, p. A1.

37 "Russian Federation President Boris Yeltsin Addresses Joint Meeting of U.S. Congress," Federal News Service, June 17, 1992.

38 This important Russian-American initiative's promising beginnings, and the Clinton administration's subsequent unilateral decision to cancel it, are described in Chapter 10 *infra*.

39 "Russian Military Drastically Gearing Down," CNN, June 17, 1992.

40 *Id.*

41 See Stuart Goldman, "Russian Conventional Armed Forces: On the Verge of Collapse?," CRS Report for Congress, Sept. 4, 1997, p.11.

42 Roman Zadunayskiy, "Parliament Adopts Law on Defense," Itar-TASS, June 26, 1992.

43 Captain O. Odnokolenko, "Parliamentary Hearing on Draft Law on Defense," KRASNAYA ZVEZDA, May 14, 1992.

44 Guy Chazan, "Russian defense conversion program hits snags," UPI, Feb. 6, 1992.

45 Gennady Talalayev, "President Yeltsin Meets Managers of Defense Enterprises," Itar-TASS, May 13, 1992.

46 "Russian Defense Ministry to Sell Off Unwanted Military Property," Itar-TASS, Nov. 30, 1992.

47 S. Ostanin, "Russian Defense Collegium Discusses Military Procurement Problems," Itar-TASS, Aug. 1, 1992.

48 Vladlas Burbulis, "Russian Troop Withdrawal from Lithuania as Scheduled," Itar-TASS, Oct. 13, 1992. Western assistance, in particular a large German aid program, was launched to assist the repatriation of Russian troops.

49 Andrei Naryshkin, "Yeltsin Meets Top Military Brass," Itar-TASS, Nov. 23, 1992.

50 See *infra* Chapters 9-11.

51 U.S. Policy Towards Russia, Part I: Warnings and Dissent: Hearing Before the House Committee on International Relations, 106th Cong. (1999).

52 As the most prominent reformer of the time, Yegor Gaidar, himself acknowledged: "The initial response of Western political and financial elites toward Russian economic reform was very wary and cool. ... [A]s far as the reforms already begun were concerned, Western thought was that over the past few years there had already been a great deal of talk, and a dozen or so official programs, so how did they know that this wasn't just more of the same? Better to wait and see." DAYS OF DEFEAT AND VICTORY, pp. 141-42.

53 "Address to the Nation on Reducing United States and Soviet Nuclear Weapons," Bush Presidential Library online collection, <http://www.bushlibrary.tamu.edu/papers/1991/91092704.html>.

54 Freedom for Russia and Emerging Democracies and Open Markets Support Act of 1992, P.L. 102-511, Oct. 24, 1992.

55 U.S. Policy Towards Russia, Part I: Warnings and Dissent: Hearing Before the House Committee on International Relations, 106th Cong. (1999), p. 60.

56 The Clinton administration has not lived up to this example of bipartisanship and willingness to engage Congress. Notwithstanding the fact that this examination of U.S.-Russia policy was commissioned by the Speaker of the House of Representatives--the third-ranking constitutional officer--and performed by the Chairmen of five standing committees of the Congress, Strobe Talbott, the administration "coordinator" for Russia policy, has refused even to respond to invitations to discuss the policy informally with the House leadership. To his credit, Secretary of the Treasury Lawrence Summers did meet with the Speaker's Advisory Group.

57 Curt Tarnoff, "U.S. Assistance to the Soviet Union and Its Successor States 1991-1998: A History of Administration and Congressional Action," CRS Report for Congress, Apr. 16, 1999.

58 P.L. 102-511, Secs. 101, 102.

Chapter 3

1 See generally STÉPHANE CORTOIS, NICOLAS WERTH, JEAN-LOUIS PANNÉ, ANDRZEJ PACZKOWSKI, KAREL BARTOSEK, JEAN-LOUIS MARGOLIN, THE BLACK BOOK OF COMMUNISM, trans. Jonathan Murphy and Mark Kramer (Cambridge: Harvard Univ. Press, 1999), p. 4.

2 MICHAEL BERSTAN & MICHAEL RABUSHKA, *FIXING RUSSIA'S BANKS: A PROPOSAL FOR GROWTH* (Stanford: Hoover Institution Press, 1998), p. 7.

3 Nina L. Khrushcheva, "Cultural Contradicts of Post-Communism: Why Liberal Reforms Did Not Succeed in Russia," paper prepared for the Council on Foreign Relations, Working Group on Development, Trade and International Finance.

4 YEGOR GAIDAR, *DAYS OF DEFEAT AND VICTORY* (Seattle: Univ. Wash. Press, 1999), p. 273.

5 Merton J. Peck & Thomas J. Richardson, eds., *WHAT IS TO BE DONE? PROPOSALS FOR THE SOVIET TRANSITION TO THE MARKET* (New Haven: Yale University Press, 1991), p. 152.

6 European Bank for Reconstruction and Development, *Transition Report 1999: Tens years of Transition*, p. 110.

7 Letter Report from the General Accounting Office, 803-95, GAO-NSIAD-95-156. This is from an assessment of the Urban Institute's efforts to promote housing policy reform in Russia.

8 *Id.*

9 Paul H. Rubin, "Growing a Legal System in the Post-Communist Economies," *CORNELL INTERNATIONAL LAW JOURNAL*, Winter 1994.

10 "Built on Sand," *THE ECONOMIST*, June 3, 2000, p. 19.

11 Louis Uchitelle, "The Art of a Russian Deal: Ad-Libbing Contract Law," *N.Y. TIMES*, Jan. 17, 1992, p. A1.

12 Lyudmila Yermakova, "Market Economy Cannot Develop Without Court of Arbitration," *Itar-TASS*, Dec. 29, 1992.

13 John I. Huhs and Ramaz A. Beridze, "Dispute Resolution in Russia," *AMERICAN LAWYER*, Nov. 1992.

14 *Id.*

15 Louis Uchitelle, "The Art of a Russian Deal: Ad-Libbing Contract Law," *N.Y. TIMES*, Jan. 17, 1992, p. A1.

16 Paul Klebnikov, "A Market Grows in Russia," *FORBES*, June 8, 1992, p. 78.

17 Vladimir Gubarev, "How to get your money back from con men," *MOSCOW NEWS*, Oct. 18, 1992. This article covers attempts by Russian businesses to reclaim funds lost to dishonest American and Western firms. See *infra* Chapter 7, for further discussion of Russian organized crime.

18 Duncan Robinson, "Weak Russian Contract Enforcement Takes Toll on Companies from US," *JOURNAL OF COMMERCE*, July 31, 1992, p. 4A. At least one American law firm advised its clients that they would be "naked" in Russia's legal system and should try to establish their own dispute resolution mechanisms.

19 In the last years of the Soviet Union, the monolithic Gosbank spawned a handful of specialized banks, including Pomstriobank, Zhilstosbank, Agrobank, Vnesheombank, and Sberbank.

20 MICHAEL BERSTAN & MICHAEL RABUSHKA, *FIXING RUSSIA'S BANKS: A PROPOSAL FOR GROWTH*, (Stanford: Hoover Institution Press, 1998).

21 Elizabeth Neuffer, "Capitalism takes hold in Russia," *BOSTON GLOBE*, Jan. 3, 1992, p. 1.

22 Jose Piñera, "Russia Unbound: A Report from Moscow," May 2000.

23 Michael McFaul, "Russia Needs True Reform, Not Higher Taxes," *WALL ST. J.*, Aug. 4, 1998, p. A13.

24 "Presidential Decree on Bankruptcy," *BBC Summary of World Broadcasts*, June 29, 1992.

25 "Yeltsin Issues Various Decrees, on Bankrupt Enterprises and Other Issues," *RUSSIA AND COMMONWEALTH BUSINESS LAW REPORT.*, Vol. 3, No. 5, June 26, 1992.

26 "Two Steps from Bankruptcy," OFFICIAL KREMLIN INTERNATIONAL NEWS BROADCAST, Federal Information Systems Corporation, Dec. 4, 1992. This admission was made by L. Paidiev, the chief of the Russian Economics Ministry department in charge of providing assistance (subsidies) to troubled enterprises.

27 *Id.*

28 Sen. Bob Packwood and James Carter, "Time is Ripe for US-Russia Free Trade," J. OF COM., Mar. 2, 1998, p. 7A.

Chapter 4

1 Acceptance Speech, New York City, July 16, 1992.

2 Acceptance Speech, New York City, July 16, 1992.

3 "A New Covenant for American Security," remarks at Georgetown University, Washington, D.C., Dec. 12, 1991.

4 Robert Bartley, "How Gore Lost Russia," WALL ST. J., Aug. 21, 2000, A19.

5 Bruce W. Nelan, "The No-Guts, No-Glory Guys," TIME, Nov. 22, 1993, p. 48.

6 *See text box, infra.*

7 Elaine Sciolino, "Who'll Win Russia?," N.Y. TIMES, May 19, 1996, p. 1.

8 Thomas L. Friedman and Elaine Sciolino, "Clinton and Foreign Issues: Spasms of Attention," N.Y. TIMES, Mar. 22, 1993, p. A3.

9 Ann Devroy and Ruth Marcus, "President Clinton's First 100 Days; Ambitious Agenda and Interruptions Frustrate Efforts to Maintain Focus," WASH. POST, Apr. 29, 1993, p. A1.

10 President Clinton in a June 5, 2000, speech to the Russian Duma cited the fact that he has visited Russia during his two terms more frequently than any other president as evidence of his personal commitment to Russia policy making--an example of the substitution of form for substance that typified the administration's entire approach to Russia. In similar fashion, the Gore-Chernomyrdin Commission--to which the president handed over so much responsibility--produced a vast bureaucracy and voluminous reports, but little in the way of substantive results.

11 *See infra* Chapter 5.

12 According to legend, Prince Potemkin, the favorite of Catherine the Great, had sham villages erected along the route of one of her journeys to give the Czarina a delusive impression of the prosperity of her realm. It has been proverbial for more than two centuries.

13 Ceci Connolly, "Gore Labels GOP Drug Plan a Facade," WASH. POST, July 4, 2000, p. A6.

14 Bill Sammon, "Occidental Deal Benefits Gores; Sale of Federal Oil Field Boosts Family Fortune," WASH. TIMES, June 26, 2000, p. A1; "Gore, Hitting Bush for Oil Ties, is Knee Deep in His Own Crude; Owns \$500,000 of Occidental," WASH. TIMES, June 23, 2000, p. A1; Patrick Cockburn, "Al Gore's Family Linked to Corrupt Oilman; Why the Vice President Knows So Much About Russia: Tycoon Armand Hammer Had the Politician's Father 'In His Back Pocket,'" THE INDEPENDENT (London), May 21, 2000, p. 21 ("The American press missed the point over the Gore-Chernomyrdin scandal," a diplomat in Moscow said last week. "Gore had access to the Soviet and then the Russian leadership long before he met Chernomyrdin because of his father's links to Hammer and Hammer's high-level contacts in the Soviet Union."); Alexander Cockburn, "Al Gore's Teapot Dome: Occidental Petroleum acquires large portion of Elk Hills," THE NATION, July 17, 2000, p. 10 ("Normally, the Department of Energy would have been responsible for examining whether the sale of this important national asset was in the best interests of the country. But the DOE was absolved from this task. Instead, Gore arranged for the consulting firm ICF Kaiser International to assess the sale. The chairman of ICF Kaiser was none other than master-fixer Tony Coelho, friend of Al and for a time overseer of the Gore presidential campaign. ICF Kaiser duly delivered a

wholehearted and unqualified certification of the deal.").

15 Bruce Stokes, "Treasury Undersecretary Lawrence Summers on ..." NAT'L J., Feb. 26, 1994, p. 470.

16 Ambassador-at-Large, Special Adviser to the Secretary of State for the New Independent States.

17 Thomas L. Friedman and Elaine Sciolino, "Clinton and Foreign Issues: Spasms of Attention," N.Y. TIMES, Mar. 22, 1993, p. A3.

18 Talbott has been described in the press as "chronically disorganized." Steven Erlanger, "Russia Vote Is a Testing Time for a Key Friend of Clinton's," N.Y. TIMES, June 8, 1996, p. A1. *See also* Margaret Carlson, CNN's *Capital Gang*, Jan. 1, 1994.

19 Strobe Talbott, Hearing of the Senate Foreign Relations Committee on the Nomination of Strobe Talbott to be Ambassador-at-Large and Special Adviser to the Secretary of State on the Commonwealth of Independent States, Mar. 23, 1993.

20 *See infra* Chapter 5.

21 As Russia scholar Dimitri Simes told the *New York Times* in 1996, "I think [Talbott's] self-confidence was a little misplaced ... And the combination of his know-it-all phenomenon and his closeness to the President and his bureaucratic skills undermined the normal analytic process of policy making." Steven Erlanger, "Russia Vote Is a Testing Time for a Key Friend of Clinton's," N.Y. TIMES, June 8, 1996, p. A1. *See also* testimony of David H. Swartz, former Ambassador to Belarus under the Bush and Clinton administrations, before the House International Relations Committee, "U.S. Policy Towards Russia, Part I: Warnings and Dissent," Oct. 6, 1999, pp. 63-64 ("In my experience, Talbott always knew best ... refuting, rebutting, rejecting, or simply ignoring advice from his ambassadors in the field and other assistants.").

22 Meeting between Summers and the Speaker's Advisory Group, June 28, 2000.

23 Statement to the Speaker's Advisory Group on Russia by Thomas Graham, June 7, 2000. On Summers and Chubais, *see also* JANINE WEDEL, *COLLISION AND COLLUSION: THE STRANGE CASE OF WESTERN AID TO EASTERN EUROPE 1989-1998* (New York: St. Martin's Press, 1998), pp. 124-127.

24 Peter Reddaway, "Questions about Russia's 'Dream Team'," CSIS POST-SOVIET PROSPECTS, Vol. V, No. 5, Sept. 1997.

25 General Accounting Office, "Harvard Institute for International Development's Work in Russia and Ukraine," GAO/NSIAD-97-27, Nov. 27, 1997, p. 4.

26 JANINE WEDEL, *COLLISION AND COLLUSION: THE STRANGE CASE OF WESTERN AID TO EASTERN EUROPE 1989-1998* (New York: St. Martin's Press, 1998), pp. 127-128. *See also* Michael Dobbs and Paul Blustein, "Lost Illusions About Russia; U.S. Backers of Ill-Fated Reforms Now Portrayed as Naïve," WASH. POST, Sept. 12, 1999, p. A1; "Tainted Transactions: An Exchange," NAT'L INTEREST, Summer 2000 (comments by Jeffrey Sachs, Anders Åslund, Marek Dabrowski, Peter Reddaway, Igor Aristov, Wayne Merry, Michael Hudson, David Ellerman, Steven Rosefielde, and Janine Wedel).

27 Remarks by Deputy Treasury Secretary Lawrence Summers at the U.S.-Russia Business Council Conference, Federal News Service, Apr. 1, 1997.

28 Michael Dobbs and Paul Blustein, "Lost Illusions about Russia; U.S. Backers of Ill-Fated Reforms Now Portrayed as Naïve," WASH. POST, Sept. 12, 1999, p. A1.

29 *See, e.g.*, Peter Baker, "Clinton Treads Careful Path Through Unsettled Moscow," WASH. POST, Sept. 2, 1998, p. A27; John M. Broder, "Summit in Moscow: The Overview; Clinton Tells Moscow Crowd That Future Won't Be Easy," N.Y. TIMES, Sept. 2, 1998, p. A1.

Chechnya Section

1 Maureen Greenwood, Amnesty International USA, "Increased Level of Torture in the Russian Republic of Chechnya,"

testimony before the Commission on Security and Cooperation in Europe, June 21, 2000.

2 Jim Nichol, "Chechnya Conflict: Recent Developments," CRS Report for Congress, May 3, 2000.

3 Steven Erlanger, "Christopher, Visiting Russia Hints at Support for Yeltsin," N.Y. TIMES, Mar. 23, 1996, p. A4; Michael S. Lelyveld, "U.S. Downplays Russia's Misdeeds, Experts Say," J. OF COM., Mar. 28, 1996, p. A1 ("In an hour long meeting with Mr. Yeltsin this morning, Mr. Christopher stressed the positive, workmanlike, constructive side of the United States-Russian relationship, his aides say, and touched not at all on major sore points, like ... the ongoing warfare in Chechnya.").

4 David Hoffman, "Clinton, Yeltsin Gloss Over Chechen War; Russian Leaders Denies Fighting Continues Despite Rising Death Toll," WASH. POST, Apr. 22, 1996, p. A1.

5 Elaine Sciolino, "Who'll Win Russia? For America, Uncertainty Drops the Riddle," N.Y. TIMES, May 19, 1996, p. 1.

6 See generally Rajan Menon and Graham Fuller, "Russia's Ruinous Chechen War," FOREIGN AFFAIRS, March/April 2000, pp. 32-44.

7 David Hoffman, "Russian Premier Pins Bombing on Chechens," WASH. POST., Sept. 16, 1999, p. A26.

8 Yabloko originally supported the war but called for negotiations--on tough terms--shortly before the election. Clinton administration troika ally Anatoly Chubais called Yavlinsky a traitor for suggesting the time had come for talks. Yabloko lost a number of seats in the new Duma because of its "soft" stance on the Russian intervention.

9 Dmitri Trenin, "Chechnya: Effects of the War and Prospects for Peace," Carnegie Moscow Center.

10 Testimony before the European Affairs Subcommittee of the Senate Foreign Relations Committee, Apr. 12, 2000.

11 Bill Clinton, "Remembering Yeltsin," TIME, Jan. 1, 2000.

12 Testimony before the European Affairs Subcommittee of the Senate Foreign Relations Committee, Apr. 12, 2000.

13 TIME (int'l ed.), Jan. 17, 2000.

14 Testimony before the European Affairs Subcommittee of the Senate Foreign Relations Committee, Apr. 12, 2000.

15 Gore has made at least one incoherent statement Moscow could interpret as approval for a wider war, applying the term "rogue state," which has since been banished from the Clinton administration's lexicon, to the region surrounding Chechnya: "I took on the task of leading our effort to work with Russia--not because it was politically popular, but because it was right for America's security, and right for the spread of democracy around the world." Vice President Al Gore, Boston, Mass., Apr. 30, 2000. "And in the talks that we have been having with them, there are signs of an increasing recognition within Russia that the threats that they face on their southern border from extremist groups, from the potential emergence of rogue states in the area to their south they have all the conflict they're trying to deal with in the region now that's produced a new awareness on their part that they might have something to gain from allowing a limited system." LATE EDITION WITH WOLF BLITZER, CNN, Apr. 30, 2000.

Chapter 4 continued

30 Testimony of Dimitri Simes, President of the Nixon Center, before the Speaker's Advisory Group on Russia, Apr. 13, 2000.

31 Testimony of Strobe Talbott before the House Appropriations Committee, Apr. 19, 1993.

32 Testimony of Strobe Talbott before the House Foreign Affairs Committee, Oct. 6, 1993.

33 BORIS YELTSIN, THE STRUGGLE FOR RUSSIA (New York: Random House, 1994), p. 255 ("Formally, the president was violating the Constitution, going the route of antidemocratic measures, and dispersing the parliament--all for the sake of establishing democracy and the rule of law in the country. The parliament was defending the Constitution--in order to

overthrow the lawfully elected president and establish total Soviet rule."). *See also id.*, p. 242.

34 "Brief on Upcoming Exchange Conference to Promote Trade between the U.S. and the Newly Independent States," Federal News Service, Oct. 13, 1993 (emphasis added).

35 Dimitri K. Simes and Paul J. Saunders, "The Icon and the Hacks," NAT'L REVIEW, Oct. 12, 1998, p. 44.

36 Indeed, administration favorite Anatoly Chubais branded Yavlinsky a "traitor" in the fall of 1999 for suggesting that negotiations with Chechen leaders could be appropriate.

37 *See, e.g.*, Natalia Dinello, "Bankers' Wars in Russia: Trophies and Wounds," POST-SOVIET PROSPECTS, Vol. VI, No. 1, Feb. 1998, p. 3.

38 *Id.*, p. 4.

39 Leonid Bershidsky, "Loans for Shares Unraveling," MOSCOW TIMES, Feb. 3, 1996. *See also* Stephanie Simon, "Russia's Lofty Plan to Privatize State Companies is Near Collapse; Auctions: Some Firms Have Been Sold, But Critics Say Politics, Ineptitude Have Kept Many Choice Holdings Off the Block," L.A. TIMES, Dec. 8, 1995, p. D1.

40 Matt Bivens, "Laundering Yeltsin: How US Hypocrisy Feeds Russian Corruption," THE NATION, vol. 269, no. 10, Oct. 4, 1999, p. 11.

41 Lee S. Wolosky, "Putin's Plutocrat Problem," FOREIGN AFFAIRS, vol. 79, no. 2, p. 21.

42 *Id.*, p. 20.

43 Jonas Bernstein, "Loans-for-Shares Nets \$1 Billion," MOSCOW TIMES, Dec. 30, 1995.

44 FRONTLINE, Public Broadcasting Service, May 9, 2000.

45 *Id.*

46 Lee S. Wolosky, "Putin's Plutocrat Problem," FOREIGN AFFAIRS, vol. 79, no. 2, p. 20. In one case, for example, Menatep Bank reportedly received a "strange deposit" of \$50 million from Russia's Finance Ministry that was essential to its bid to acquire Sibneft. *See* Jonas Bernstein, "Loans-for-Shares Nets \$1 Billion," MOSCOW TIMES, Dec. 30, 1995.

47 Although the system of "authorized banks" was eventually scrapped, it had a profound impact on the structure of Russia's banking system.

48 FRONTLINE, Public Broadcasting Service, May 9, 2000.

49 Testimony of Secretary Summers before the Speaker's Advisory Group on Russia, June 28, 2000.

50 *See, e.g.*, Lee S. Wolosky, "Putin's Plutocrat Problem," FOREIGN AFFAIRS, vol. 79, no. 2, pp. 22-24.

51 DIMITRI K. SIMES, AFTER THE COLLAPSE: RUSSIA SEEKS ITS PLACE AS A GREAT POWER (New York: Simon & Schuster, 1999), pp. 171-72; John Lloyd, "The Russian Devolution," N.Y. TIMES, Aug. 15, 1999.

52 FRONTLINE, Public Broadcasting Service, May 9, 2000.

53 Lee Hockstader and David Hoffman, "Yeltsin Campaign Rose From Tears to Triumph; Money, Advertising Turned Fortunes Around," WASH. POST, July 7, 1996, p. A1.

54 David Hoffman, "Yeltsin Dismisses 3 Hard-Line Aides From Key Positions," WASH. POST, June 21, 1996, p. A1.

55 STEPHEN WHITE, RUSSIA'S NEW POLITICS: THE MANAGEMENT OF A POSTCOMMUNIST SOCIETY (New York: Cambridge University Press, 2000) p. 97; "International Observer Mission: Election of President of the Russian Federation 16th June 1996 and 3rd July 1996 Report on the Election," OSCE/ODIHR.

56 In addition to the suspected use of IMF funds as a piggy bank for the Yeltsin campaign, the OSCE documented several

examples of election irregularities, including Yeltsin supporters accosting citizens as they entered the voting booths and sometimes even entering the voting booths and emerging with multiple ballots. "Final Statement of the OSCE/ODIHR Observer Mission--First Round of Voting," Organization for Security and Cooperation in Europe, June 18, 1996.

57 This ostrich-like approach to inconvenient possibilities often went to remarkable lengths. In January 1996, when observers in Congress and the executive branch were deeply concerned about the possibility of a Communist victory in the upcoming Russian presidential elections, "Deputy Secretary of State Strobe Talbott's first draft of a major analysis of Russia policy last January omitted any discussion of what to expect if the Communists won. Only after colleagues drew the omission to Mr. Talbott's attention did he insert a 'what if' section in the final version." Elaine Sciolino, "Who'll Win Russia? For America, Uncertainty Drops the Riddle," N.Y. TIMES MAGAZINE, May 19, 1996, p. 4. The point, of course, is not that the Clinton administration should have been indifferent to the outcome once the election became a choice between Yeltsin and the Communists, but that the administration habitually failed to consider negative contingencies in Russia--some of which failed to arise, like a Communist victory in 1996, while others, like dishonesty among the administration's Russian "partners," came to haunt U.S.-Russian relations.

58 Janine R. Wedel, "Tainted Transactions: Harvard, the Chubais Clan and Russia's Ruin," NAT'L INTEREST, Spring 2000.

59 Even now, the Clinton administration continues to promote the number of privatizations rather than the results: "Tens of thousands of state-owned enterprises have been privatized and more than 900,000 small businesses have been established, contributing to Russia's recent economic rebound." Leon Fuerth, "Russia's Future: Progress, Prospects, and U.S. Policy," remarks to the Woodrow Wilson International Center for Scholars, July 25, 2000. The issue is not that enterprises were transferred from the state--it is to whom and into what conditions they were transferred--and the effect those transfers had on future economic growth. With respect to small business, many are of course formed by entrepreneurial Russians who have been thrown out of work, and 900,000 in a nation of 146 million is not particularly impressive. Finally, the primary cause of recent economic good news in Russia is higher oil prices. Russia's much more valuable human resources remain sadly underutilized.

60 Testimony of Lawrence Summers before the Senate Banking, Housing, and Urban Affairs Committee, Feb. 8, 1994.

61 Fiscal Year 1995, "USAID/Russia: An Overview of Program and Objectives."

62 Testimony of Strobe Talbott before the Senate Foreign Relations Committee, Mar. 23, 1994.

63 Boris Fyodorov, "Killing with Kindness: No More 'Help' for Russia, Please," EUROPEAN WALL ST. J., June 8, 2000.

Financial Aid Chart

1 This is the amount of cumulative expenditures for activities carried out by the Departments of Defense (\$790 million), Agriculture (\$2.42 billion), and Energy (\$584 million), and other smaller agencies. The amount budgeted for non-FREEDOM Support Act activities for Russia is \$5.17 billion, and the amount obligated is \$4.54 billion.

2 The United States contributes 18.25% of the IMF's total quotas (about \$35 billion), the largest contribution of any country.

3 Includes FREEDOM Support Act funds only. This is the amount of cumulative expenditures for Freedom Support Act Funds. The amount budgeted for Russia is \$2.49 billion, and the amount obligated is \$2.44 billion.

4 Includes lending through July 1999, done through the International Bank for Reconstruction and Development (IBRD) and International Development Association (IDA), both part of the World Bank. More than \$11 billion has been approved but only \$6.6 billion has been disbursed--\$2 billion for investment loans and \$4.6 billion for adjustment loans. Calculated based on a U.S. share of 16%.

5 The U.S. has a 10% share in the European Bank for Reconstruction and Development and is the largest single shareholder.

Chapter 4 continued

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- 27 The Additional Views were signed by the ranking Democrat on the Committee, Lee Hamilton, and by Sam Gejdenson, Bob Clement, Tom Lantos, Gary Ackerman, Eni Faleomavaega, Pat Danner, and Howard Berman. See House International Relations Committee, Report on the Iran Missile Proliferation Sanctions Act of 1997, p. 14.
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- 29 Report on the Iran Missile Proliferation Sanctions Act of 1997, pp. 4-6.
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I think that in his dealings with our country, he proved to be a person whose word was worthy of respect, and we accomplished a great deal with Chernomyrdin. In fact, right here at the Naval Observatory, I talked with him personally and worked out the provisions by which the war in Kosovo was ended, and he played a major role in that. And you know, Russia is now--for all of its many problems, the question there is not whether or not to return to communism, the question on the table in Russia is: How fast are they going to move forward with the reforms? They now have a privatized market. They have more private ownership in their economy than many countries in Western Europe. They have a democracy. ...

Gore's attribution to Chernomyrdin of credit for Russian democracy and the absence of a Communist

comeback in Russia is grossly exaggerated. For Chernomyrdin's unhelpful role in mediating the end of the Kosovo conflict, *see* Chapter 10 *infra*.

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R. James Woolsey, former Director of Central Intelligence, testimony before the House National Security Committee, hearing on "Challenges Posed by Russia to United States National Security Interests, June 13, 1996, p. 18. "Banking, the extractive industries, exporting oil, gas, timber, and other natural resources, and many manufacturing enterprises are thoroughly penetrated by organized crime. Even more troubling, so are important parts of the security services, the military, and other parts of the government." *Id.*

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Not One of Them Has Yet been Solved," MOSCOW NEZAVISIMAYA GAZETA, May 6, 2000; "Commercial Banker Shot Dead in Contract Killing," Itar-TASS, June 14, 2000; EKHO MOSKVVY RADIO, June 16, 2000; MOSCOW KOMMERSANT, May 23, 2000; Gregory Feifer, "Uralmash Director Killed in Sverdlovsk," MOSCOW TIMES, July 11, 2000; "Being a journalist in Russia is really risky," Agence France Presse, July 30, 2000; Russia Today, July 31, 2000, citing BBC Monitoring of Itar-TASS report.

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Chapter 10

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19 Statement of Peter W. Rodman, Director of National Security Programs at the Nixon Center for Peace and Freedom, before the House International Relations Committee, Hearing on "The U.S. and Russia: Assessing the Relationship," July 16, 1998 (citing Primakov's September 1996 address to the U.N. General Assembly deploring "tendency to establish a unipolar

world" as "unacceptable to the overwhelming majority of the international community.").

20 "Russian Military at a Loss for Friends But Old Standbys Tend to Remain Foes," Office of Research, Department of State, Aug. 2, 2000. ("Among foreign threats, the United States is preeminent. Not only is the U.S. seen as harboring hegemonistic ambitions but - as the driving force behind NATO and its eastward expansion - the Americans [are believed to] pose a more concrete problem practically on the Russian' doorstep." See also Prof. Stephen Blank, U.S. Army War College, "The State of Russian Foreign Policy and U.S. Policy Towards Russia," The Heritage Lectures, Apr. 6, 1998 ("Russian military thinking has retained the Soviet 'us vs. them' approach and the most sterile forms of correlation-of-forces theory ... The failure to demilitarize the political process and the environment within which security policy is formulated and executed has had a decisive and lasting significance for foreign policy."). Military attitudes at lower levels of the officer corps are less problematic. Stuart Goldman, "Russian Conventional Armed Forces: On the Verge of Collapse?", CRS Report for Congress, Sept. 4, 1997 pp. 29-30 (survey results reflect majority support for democracy, non-support for authoritarianism and forcible restoration of the U.S.S.R.). See also Leon Aron, "Russia's New Foreign Policy," American Enterprise Institute, Spring 1998, p. 9 ("[T]he Ministry of Foreign Affairs and the Russian diplomatic corps [are] perhaps the most authentic and recalcitrant relic of the Soviet past among Russian institutions, a class whose fall from the pinnacle of Soviet society in terms of material stature and prestige can be compared only with that of the military."); Paula Dobriansky, "Russian Foreign Policy: Promise or Peril?", WASHINGTON QUARTERLY, Winter 2000, p. 138 ("While foreign policy-related concerns are limited to a fairly small segment of the Russian elite, these individuals appear to exhibit a growing sense of anti-Western and anti-American sentiments. Even a casual perusal of the Russian media illustrates a profoundly disturbing phenomenon: Russian commentators, both pro-Communist and pro-government, are hostile to U.S. goals and policies."); Ariel Cohen, "What Kind of Relationship? What Kind of Russia?", "The State of Russian Foreign Policy and U.S. Policy Toward Russia," the Heritage Foundation, April 6, 1998 ("[T]he Defense Ministry, the military, the security services, and the foreign policy apparatus remain untouched, almost pristine in their Soviet mindset."). The Russian military has also become increasingly politicized over the last decade. Stuart Goldman, "Russian Conventional Armed Forces: On the Verge of Collapse?", CRS Report for Congress, Sept. 4, 1997, p. 27. Examples include refusals to obey presidential directives in the first Chechen conflict and possibly the seizure of Pristina airport during the Kosovo conflict, which some observers believe occurred without Yeltsin's involvement.

21 Lev Volkov, "Critical decisions: The START II and START III Treaties Do Not Resolve Problems of Strategic Stability," NEZAVISIMOYE VOYENNOYE OBOZRENIYE, Oct. 1, 1999

22 Alexei Arbatov, "Arbatov on U.S.-Russian Arms Reduction," Carnegie Endowment Non-Proliferation Project, May 18, 2000.

23 Bruce G. Blair, Senior Fellow, Brookings Institution, testimony before the House National Security Committee's military research and development subcommittee on Russian Missile Detargeting and Nuclear Doctrine, March 12, 1997.

24 PETER V. PRY, WAR SCARE: RUSSIA AND AMERICA ON THE NUCLEAR BRINK (Westport, Conn.: Praeger 1999). For more on Russian military views of American aggressiveness, see also Maj. Gen. (ret.) V.A. Ryaboshapko, "Nuclear Conditions: Conditions of Possible Resort to Nuclear Weapons" (East View) p. 11 ("In light of the latest events in the Balkans, it is growing more and more evident that the U.S. and NATO military and political leaders rely on solving international problems by force. Talk about necessity of solving these problems by peaceful methods is only a cover, and the diplomats' work becomes only a deceptive maneuver. And as today negative global public attitude to the Serbs and Serbia has been formed, tomorrow the same can be done to Russia, in case it will take an active stance in defending its interests."). Gen. Ryaboshapko outlined a variety of factors that, at least until 2005, "create a need for substantially wider range of factors that lead to use of NW [nuclear weapons]," including NATO enlargement, weaker Russian conventional forces, and weaker Russian capability to detect aggressive preparations. *Id.* at 12. He emphasized the hair-trigger nature of nuclear decision making that Russian strategists believe they now confront: "[I]t is necessary to draft a well-founded decision [on using nuclear weapons] beforehand, so that it could be realized in most short time and could not be discovered by technical intelligence." *Id.*

25 Although the United States has allowed senior Russian officers and officials access to such sensitive facilities as NORAD headquarters at Cheyenne Mountain and STRATCOM headquarters in Omaha, the Russian government has refused repeated requests to provide access to Yamantau Mountain, including a Sense of Congress resolution that the House of Representatives unanimously passed in 1998 and a reported inquiry from the President at the April 1996 Moscow summit. See David Hoffman and John F. Harris, "Clinton, Yeltsin Gloss over Chechen War," WASH. POST, Apr. 22, 1996. See also Michael R. Gordon, "Despite Cold War's End, Russia Keeps Building a Secret Complex," N.Y. TIMES, Apr. 16, 1996 (American officials say facility "involves a major investment of resources" and "is as big as the Washington area inside the Beltway"); John Omicinski, "Underground Bunker in Russia Called Concern by U.S. General," Gannett News Service, Mar. 31, 1998 (STRATCOM commander Habiger says 20,000 workers involved in construction at Yamantau). Other command-and-control

facilities built or upgraded include bunkers for Russian leaders at Voronovo and Sharapovo, both near Moscow, the latter connected to Moscow by a special subway route. See Bill Gertz, "Moscow builds bunkers against nuclear attack," WASH. TIMES, Apr. 1, 1997.

26 By contrast, the ballistic missile defenses advocated by the United States are not prompted by a fear of intentional Russian attack and are incapable of protecting against it.

27 Statement of Hon. Curt Weldon, Chairman, Research and Development Subcommittee, House Armed Services Committee, before the Conference on Assured Strategic Command and Control, National Defense University, Apr. 7-8, 1998. The combination of this extraordinary level of suspicion with Russia's new strategic doctrine of greater reliance on nuclear forces, including possible first use; the "disorganization and poor morale ... endemic to much of the [Russian] armed forces, [which] has to some degree reached the Strategic Rocket Forces;" and "the gaps in early warning that the Russians now have" produce in combination incalculable risks for the United States. "It is very troubling to contemplate what might happen if some combination of factors produced a belief on the part of senior Russian leaders that they were under attack." Testimony of R. James Woolsey, former Director of Central Intelligence, before the House Armed Services Committee, hearing on "Threats to United States National Security," Feb. 12, 1998, p. 53.

28 "Conceptual Provisions of a Strategy for Countering the Main External Threats to Russian Federation National Unity" INOBIS (Moscow: Institute of Defense Studies, 1995) p. 2. The study attributed to the "West" an "attempt to cut Russia off from the Transcaucasus by encouraging separatism in the North Caucasus, above all in Chechnya." *Id.* at 6. NATO enlargement "is seen as an attempt to isolate Russia and ultimately oust it from Europe ... [W]e are dealing with a resumption of German expansion in the eastern and southeastern directions twice interrupted in this century ...". *Id.* According to this study, a disparity between Russian and American nuclear forces anticipated under START II "will be perceived in the West as grounds to regard Russia as a second-rate nuclear power, which the only remaining nuclear superpower, the United States, will be able to subject to nuclear blackmail for purposes of dictating its will." *Id.* at 8. The study also advocated Russian military occupation of the Baltic republics in the event of their accession to NATO, a course that it deemed safe because "no one in the West plans to fight Russia over the Baltic"--an argument that casts an interesting light on claims that Baltic accession to NATO threatens Russian national security. *Id.* at 11-13. A further INOBIS study, "Army Reform and Security," published in February 1996 and translated by the Heritage Foundation, explicitly rejects the 1993 military doctrine's thesis that Russia had no external enemies, adding: "Currently, Russia's basic probable enemies remain the United States and the NATO countries. ... [American] orientation toward a [nuclear] first strike not only has not disappeared but has actually increased." By contrast, "it is not practical to view Iran and Russia as probable enemies of Russia, at least in the near future, because there are no objective causes for confrontation between the Russian Federation and those countries." The document notes the "increased demands for combat readiness in the strategic nuclear forces." See Valery Dementyev and Anton Surikov, "Army Reform and Security," Institute for Defense Research (INOBIS), Moscow, February 1996, translated in Ariel Cohen, "Russian Hardliners' Military Doctrine: In Their Own Words," Heritage Foundation, May 30, 1996, pp. 3, 4, 7.

29 Even in 1993, these included "efforts by right-wing conservative circles in the United States to ensure for themselves unilateral advantages in the process of disarmament, and to achieve a review of the ABM Treaty on their conditions," and the possibility that the U.S. would, "under the guise of mediation and peacemaking efforts ... take Russia's place in the countries of its traditional influence..." 1993 FOREIGN POLICY CONCEPT OF THE RUSSIAN FEDERATION, Jan. 25, 1993, pp. 8-9.

30 *Id.* at 5 (emphasis added).

31 *Id.* ("Of course, there are forces in the United States that skeptically evaluate the possibility of a Russian-American partnership. However, the prevailing tendency, which rests on the two-party principle [i.e., enjoys bipartisan support], is the line towards increased cooperation with Russia.") See also *id.* at 6-7 (references to "increasing mutual understanding, trust, and partnership with the leading countries of the world, including interaction with the Western defense structures;" dialogue on military doctrine with Russia's "main partners, primarily the United States, based on the task of consolidating on a functional level the attained understanding that they no longer view each other as military enemies;" and "coordinating and realizing plans of cooperation ... with NATO and the North Atlantic Cooperation Council, increasing contacts on a bilateral and multilateral basis, interacting with NATO agencies on matters of strengthening peace and security by means of developing political contacts, military ties, exchange visits, conducting joint maneuvers, exchange of experience, and interaction in the settling of crisis situations.")

32 2000 FOREIGN POLICY CONCEPT OF THE RUSSIAN FEDERATION, June 28, 2000 (emphasis added).

33 *Id.*

34 *Id.* "Relations with European states is [sic] Russia's traditional foreign policy priority. ... an important resource for Russia's defense of its national interests in European and world affairs. And for the stabilization and growth of the Russian economy."

35 *Id.* "Asia enjoys a steadily growing importance in the context of the entire foreign policy of the Russian Federation, something which is due to Russia's direct affinity with this dynamically developing region and the need for an economic upturn in Siberia and the Far East."

36 *Id.*

37 The 1997 document was itself a revision of a provisional 1993 military doctrine, which also concluded that the threat of direct foreign military aggression against Russia was slight. (Stuart Goldman, "Russian Conventional Armed Forces: On the Verge of Collapse?", CRS Report for Congress, Sept. 4, 1997, p. 45.)

38 "Russian Federation National Security Blueprint," ROSSIYSKAYA GAZETA, Dec. 26, 1997.

39 *Id.*

40 "National Security Concept", NEZAVISIMOYE VOYENNOYE OBOZRENIYE, Nov. 26, 1999 (Downgrading the United Nations; weakening Russia's influence in the world; "a strengthening of military-political blocs and alliances, and above all NATO eastward expansion"; the possibility of foreign military bases or forces in immediate proximity to Russia's borders; and a strengthening of centrifugal forces in the CIS.).

41 *See, e.g.*, G.D. Bakshi, "The War in Chechnya," STRATEGIC ANALYSIS, August 2000, Vol. XXIV, No. 5.

42 For example, polling conducted by USIA's Office of Research and Media Reaction in the Spring of 1996 in four key Russian regions--the Moscow, St. Petersburg, Ekaterinburg, and Vladivostok metropolitan areas--revealed that NATO enlargement was essentially irrelevant to the Russian general public: "Half the people in Ekaterinburg, and one-third in each of the other regions, say they know *nothing* about proposals to expand NATO eastward. Those who do know something are more inclined not to worry, or to favor some compromise, than to support creation of a military counter-bloc." And "in April 1996 many more said that Russia's participation in the [NATO] Partnership [for Peace] strengthened the country's security than said that it weakened it (42% to 9%). ... Among the elite, the pattern was similar: 45% thought that Russia's participation in the Partnership enhanced Russia's security, while 12% thought that it weakened its security." *See* Richard B. Dobson, "Is Russia Turning the Corner?: Changing Russian Public Opinion, 1991-1996 (USIA Office of Research and Media Reaction September 1996) p. 23. More recent polling after Kosovo shows that the elite in Russia consider NATO a tool of U.S. foreign policy (92%), leading 50% to see NATO as a threat. "Russian Elite Aware of Kosovo Complexities, But Still Vexed by U.S./NATO Intervention," Office of Research, Department of State, Nov. 18, 1999. While an August 2000 poll shows NATO enlargement and "U.S. geopolitical ambitions" top the list of foreign threats perceived by both the Russian military and the Russian elite ("Russian Military at a Loss for Friends But Old Standbys Tend to Remain Foes," Office of Research, Department of State, Aug. 2, 2000.), for the general public 35-40% continue to have no knowledge or opinion on NATO enlargement. This lack of broad public interest led the State Department to drop the question from its polling.

43 GERALD B. SOLOMON, CSIS: THE NATO ENLARGEMENT DEBATE, 1990-1997, (Westport, Conn.: Praeger, 1998), pp. 23-24.

44 Strobe Talbott, "Rethinking the Red Menace," TIME, Jan. 1, 1990 (in an article naming Gorbachev "Man of the Decade").

45 Like the 1997 Founding Act, the Partnership for Peace, at least as conceived by the Clinton administration, was a compromise designed to delay the resolution of conflicting Russian and Western views of NATO and the future of Central Europe. *See, e.g.*, Henry Kissinger, "Be realistic about Russia," WASH. POST, Jan. 25, 1994 ("[I]f the Partnership for Peace is designed to propitiate Russia, it cannot also serve as a way station into NATO, especially as the administration has embraced the proposition rejected by all its predecessors over the last 40 years--that NATO is a potential threat to Russia."); *see also* Sen. Richard Lugar, "European Security Revisited," Washington D.C. June 28, 1994, quoted in GERALD B. SOLOMON, CSIS: THE NATO ENLARGEMENT DEBATE, 1990-1997 (Westport, Conn.: Praeger, 1998), p. 49 (calling PFP a "policy for postponement"). The Clinton administration, reportedly at the behest of Strobe Talbott, *see id.* at pp. 28-29, 33, preferred to elaborate the "Partnership for Peace" program as a means to defer the question of NATO enlargement and preserve the primacy of Russia in administration policy.

46 "NATO: Congress Addresses Expansion of the Alliance," CRS Report for Congress, May 24, 1999, p. 3.

47 "United States Security Strategy for Europe and NATO," Office of International Security Affairs, U.S. Department of

Defense, June 1995.

48 Founding Act on Mutual Relations, Cooperation, and Security between NATO and the Russian Federation, May 27, 1997.

49 Richard C. Paddock, John-Thor Dahlburg, "NATO, Russia OK Pact Creating Joint Council; Diplomacy: Accord Would Smooth Alliance's Planned Eastward Expansion. Interpretations of Agreement Conflict," L.A. TIMES, May 15, 1997, p. A1.

50 Letter of President Clinton to Chairman Floyd Spence, July 3, 1997 ("The Founding Act contained language explicitly underscoring NATO's right to act independently--in any way, on any issue. ... We also made clear to the Russians throughout the negotiating process that nothing in the Founding Act would provide them a means to influence in any manner NATO's internal decisions--including those the Alliance is preparing to make regarding enlargement.") The Senate was sufficiently concerned to attach to the resolution consenting to the admission to NATO of the Czech Republic, Hungary, and Poland the requirement that the President certify that the Founding Act does not, *inter alia*, give Russia a veto over NATO decision making. Former Secretary of State Kissinger, in a vehement attack on the Founding Act written shortly after it was signed, noted that it had already occasioned disputes with Russia over whether it was binding and whether it gave Russia a veto, and concluded that "Yeltsin's interpretation appears accurate;" he dismissed the argument that the Founding Act was non-binding as one that "may carry weight in law schools [but is] irrelevant to the diplomacy that will result from an instrument signed by 17 heads of state and ratified by the Russian Duma." Henry Kissinger, "The Dilution of NATO," WASH. POST, June 8, 1997.

51 Dimitri K. Simes, "Western Policies: What Went Right, What Went Wrong, What Could Have Been Done Differently," conference paper, Jamestown Foundation, June 1999.

52 Robert Zoellick, testimony before the Senate Foreign Relations Committee, Apr. 27, 1995.

53 Among these bills are:

- * Rep. Ben Gilman's NATO Expansion Act of 1994, which authorized transition assistance to facilitate the integration into NATO of the Czech Republic, Hungary, Poland, and Slovakia and other candidates for membership.

- * Rep. Henry Hyde's NATO Revitalization Act of 1994, calling on NATO to establish benchmarks and a timetable for admission to the Atlantic Alliance.

- * The NATO Participation Act of 1994, sponsored by Rep. Ben Gilman, Republican Sen. Hank Brown, and Democratic Sen. Paul Simon, authorizing transfer of defense equipment to the Czech Republic, Hungary, and Poland.

- * The Contract With America's NATO Expansion Act, which endorsed NATO enlargement in Central Europe by no later than 1999.

- * The NATO Enlargement Facilitation Act of 1996, providing \$60 million in assistance to facilitate integration of the Czech Republic, Hungary, Poland, and Slovenia into NATO, and authorizing the President to designate other countries for assistance.

- * The European Security Act of 1997, affirming that NATO enlargement would confer equal rights on new members, that non-members could not veto or delay membership decisions.

- * The Senate's 1998 Resolution of Ratification approving accession of the Czech Republic, Hungary, and Poland to NATO, which reiterates that the North Atlantic Council is the "supreme decision-making body of NATO," and that its decisions are not subject to review by the NATO-Russian Permanent Joint Council or any other non-member state or organization. (The Resolution also included an amendment by Republican Sen. John Kyl calling on the administration to negotiate a NATO Strategic Concept and citing as a threat to NATO, *inter alia*, a revived "hegemonic power" and rogue nations seeking weapons of mass destruction.)

54 Russia's longstanding and increasing pressure on the states on its periphery provides further justification for NATO enlargement.

55 Significantly, as early as July 1990, in the London Summit Declaration, NATO declared that the then-Soviet Union was no longer an "enemy" of the Alliance and announced a new program for cooperation open to all former Warsaw Pact states.

Consistent with this threat perception, U.S. conventional forces in Europe have declined by almost two-thirds since the Cold War, from over 300,000 to some 100,000—a decline more than matched by our European allies. In sum, from 1990-96, "NATO defense budgets collectively declined 15%, land forces 50%, naval forces 40%, and air forces 30%, prompting some observers to question whether NATO forces could defend Poland, Hungary, and the Czech Republic in the event of a conflict." Paul Gallis, "NATO: Congress Addresses Expansion of the Alliance," CRS Report for Congress, May 24, 1999, p. 8. The United States has only a few nuclear gravity bombs in Europe at this time. *Id.* p. 7. Significantly, Russian official opinion has been particularly opposed to the accession of the Baltic States to NATO, notwithstanding their precarious strategic position vis-a-vis Russia. *See id.* p. 9 ("The Baltic states, hinged against Russian territory, are in the view of many NATO military officials, in a starkly more disadvantageous strategic position.").

56 The fact that the pledge is contained in a non-binding document and is couched in terms of NATO's unilateral intention does not diminish the political impact of the pledge, as Secretary Kissinger has pointed out. Henry Kissinger, "The Dilution of NATO," WASH. POST, June 8, 1997.

57 *See supra* Chapter 4.

58 *See supra* Chapter 4.

59 Russian military circles and the foreign policy establishment had long been concerned by NATO enlargement (a concern no doubt exacerbated by the grandiose 50th anniversary celebration held in Washington during Kosovo military operations on April 23-25, 1999), and had been increasingly outraged by Western intervention in Bosnia in 1995 and by Operation Desert Fox, the December 1998 air campaign waged against erstwhile Soviet client Saddam Hussein. In addition to seeking assurances that Washington was not planning on using nuclear weapons against Iraq as part of Operation Desert Fox, *see text and note supra*, General Kornukov, Commander-in-Chief of the strategic air force, put his nuclear bombers on alert during the operation against Iraq.

60 Vladimir Brovkin, "Discourse on NATO in Russia during the Kosovo War," DEMOKRATIZATSIYA, Fall 1999 ("What was most striking in spring 1999 was the unanimity with which Russians from various walks of life and political parties condemned the NATO bombing. ... A great discovery for Western observers was that the Russian media, who were supposedly free and fair, were completely one-sided in coverage of Kosovo events. News media essentially reproduced Serbian propaganda and footage.").

61 Jim Nichol, "Kosovo Conflict: Russian Responses and Implications for the United States," CRS Report, June 2, 1999; *see also* Paul E. Gallis, "Kosovo: Lessons Learned from Operation *Allied Force*," CRS Report for Congress, Nov. 11, 1999, pp.12-13.

62 Michael McFaul, "Russia's Many Foreign Policies," DEMOKRATIZATSIYA, Summer 1999, p. 405. (citation omitted). "Anti-American sentiment in Russia ... is nothing new. What is new about this crisis, however, is both the degree of consensus and the new composition of the anti-American chorus. Traditionally, Russia's foreign policy elite rant about U.S. hegemony, and Russian grandmothers show up at anti-American demonstrations. At the beginning of the Kosovo conflict, however, it was young people throwing beer bottles at the U.S. embassy in Moscow and organizing university teach-ins." *Id.* p. 405.

63 Subsequent polling, however, reinforces the view that the Russian general public's harsh opinion of the United States traces back to American economic policy rather than Kosovo: in another survey Russians gave US economic assistance as the reason for a negative attitude towards the U.S. more than U.S. military action against Serbia. "Russians' Mistrust of the U.S. At New High," Office of Research, Department of State, Mar. 14, 2000.

64 Marcus Warren, "Yeltsin outraged at air strikes," ELECTRONIC TELEGRAPH, Mar. 25, 1999.

65 Christopher Lockwood, Ben Aris, and Philip Smucker, "Don't push us too far, says Yeltsin," ELECTRONIC TELEGRAPH, Apr. 10, 1999.

66 Viktor Chernomyrdin, "Impossible to talk peace with bombs falling," WASH. POST, May 27, 1999, p. A39. Throughout this period, Clinton, Gore, and Talbott were meeting intensively with Chernomyrdin in Washington and Moscow. *See* Jim Nichol, "Kosovo Conflict: Russian Responses and Implications for the United States," CRS Report for Congress, June 2, 1999, p. 5.

67 Paul E. Gallis, "Kosovo: Lessons Learned from Operation *Allied Force*," CRS Report for Congress, Nov. 11, 1999, p. 13. Russia ultimately proved willing to recede from its demand for a separate sector of occupation and accept a unified peacekeeping command in Kosovo. At a superficial level, differences with the West were patched up at the "G-8" summit in

Cologne, where Yeltsin stated that he was "among friends" and that "we need to make up after a fight." Yelena Tregubova, "Yeltsin Liked To Make Peace After Fight," KOMMERSANT-DAILY, June 22, 1999, pp. 1-3.

68 2000 FOREIGN POLICY CONCEPT OF THE RUSSIAN FEDERATION, June 28, 2000.

69 Yeltsin and Lukashenka signed the "Charter of the Union of Belarus and Russia" on May 23, 1997. On December 25, 1998, Yeltsin and Lukashenka signed a further unification treaty on equal rights for citizens, equal conditions for economic entities, and a declaration that commits the two countries to further steps of unification, including supranational governing bodies, a single currency, and a unified budget.

70 John B. Dunlop, "Reintegrating 'Post-Soviet Space,'" JOURNAL OF DEMOCRACY, Vol. 11, No.3, July 2000

71 Testimony of Ambassador David H. Swartz, Retired Senior Foreign Service Officer, "U.S. Policy Toward Russia," before the House International Relations Committee, October 6, 1999.

72 *Id.*

73 *Id.* at 43-44.

74 *Id.* at 40.

75 Secretary of State Madeleine Albright, Director of Central Intelligence George Tenet, and FBI Director Louis Freeh all traveled separately to Central Asia in the spring of 2000.

76 *See, e.g.*, Grigory Nekhoroshev, "Russia, China and Central Asian Countries Continue to Draw Closer to Each Other," NEZAVISIMAYA GAZETA, July 6, 2000.

77 Testimony of Ambassador David H. Swartz, Retired Senior Foreign Service Officer, "U.S. Policy Toward Russia," before the House International Relations Committee, October 6, 1999

78 *See* "Islands of Excellence: The Paradox of Russia's Military," in Chapter 9 *supra*.

79 Robert Legvold, testimony before the Senate Foreign Relations Committee on "Corruption in Russia," Sept. 23, 1999.

80 Lt. Gen. G.D. Ivanov, "Main Points of a Presentation ... [on] Russia's Nuclear Doctrine," October 1994.

81 *See* "Islands of Excellence: The Paradox of Russia's Military," in Chapter 9, *supra*.

82 Bruce G. Blair, Senior Fellow, Brookings Institution, testimony before the House National Security Committee's military research and development subcommittee on "Russian Missile Detargeting and Nuclear Doctrine," March 12, 1997.

83 Episodes like the 1995 "war scare" and the demarche during Operation Desert Fox, as well as the vast efforts underway to build facilities designed to survive nuclear war at sites like Yamantau and Kozvinsky Mountains, reflect this fact. This continuing distrust is reflected in the Russian Navy's reaction to the loss of the *Kursk*, as well.

84 Richard Staar, "A Tsar Is Born," HOOVER DIGEST 2000 No. 3 (Current ratio of 80% of defense funds for strategic missile forces to drop to 30%, with balance for state-of-the-art conventional forces).

85 President Bush, Address Before a Joint Session of the Congress on the State of the Union, January 29, 1991.

86 H.R. 2100; 102nd Cong., 1st Sess. §1 (1991), pp. 30-34.

87 Dr. Keith Payne and Dr. Andrei Kortunov, "The Character of the Problem," "COLD PEACE" OR COOPERATION? THE POTENTIAL FOR U.S.-RUSSIAN ACCOMMODATION ON MISSILE DEFENSE AND THE ABM TREATY, National Institute for Public Policy, January 22, 1997, p. 26.

88 *Id.*

89 R. James Woolsey, "The Way to Missile Defense: Dealing with Russia and Ourselves," NAT'L REVIEW, June 19, 2000. The Russian government has been using this formulation ever since. *See, e.g.*, Igor Ivanov, Foreign Minister, Russian

Federation, "The Missile Defense Mistake: Undermining Strategic Stability and the ABM Treaty," FOREIGN AFFAIRS, Vol. 79, No. 5, Sept./Oct. 2000.

90 Dr. Keith Payne and Dr. Andrei Kortunov, "The Character of the Problem," "COLD PEACE" OR COOPERATION? THE POTENTIAL FOR U.S.-RUSSIAN ACCOMMODATION ON MISSILE DEFENSE AND THE ABM TREATY, National Institute for Public Policy, January 22, 1997, pp. 26-27; Dr. Keith Payne and Willis Stanley, "Alternative Futures," *Id.* at 72-74; Dr. Andrei Kortunov and Dr. Andrei Shoumikhin, "Expanding the Potential for Russian-American Accommodation and Cooperation," *Id.* at 86-87; testimony of Dr. Andrei Shoumikhin, Washington Director, Moscow Public Science Foundation, before the House Armed Services Committee, September 1996.

91 Defense Secretary Aspin, Defense Department Briefing, Federal News Service, May 13, 1993.

92 Testimony of Gen. Malcolm O'Neill, Acting Director of the SDIO, before the Senate Appropriations Committee Defense Subcommittee regarding FY 1994 SDIO programs, May 4, 1993.

93 *See, e.g.*, Igor Ivanov, Foreign Minister, Russian Federation, "The Missile Defense Mistake: Undermining Strategic Stability and the ABM Treaty," FOREIGN AFFAIRS, Vol. 79, No. 5, Sept./Oct. 2000 ("Is such a system worth serious deterioration in Russia-U.S. relations, global strategic stability, and, ultimately, U.S. security?").

94 Department of State Office of Research, Opinion Analysis: Russians' Mistrust of the U.S. At New High (March 14, 2000), p.4.

95 Bill Gertz, "Intelligence report warns of missile launches against U.S.," WASH. TIMES, May 14, 1996, p. A3.

96 "Foreign Missile Threats: Analytic Soundness of Certain National Intelligence Estimates," General Accounting Office, GAO/NSIAD-96-225, August 1996.

97 Report of the Commission to Assess the Ballistic Missile Threat to the United States, July 15, 1998.

98 R. James Woolsey, "The Way to Missile Defense: Dealing with Russia and Ourselves," NAT'L REVIEW, June 19, 2000.

99 Mary McGory, "Out to Lunch," WASH. POST, Mar. 30, 2000, p. A3.

100 R. James Woolsey, "The Way to Missile Defense: Dealing with Russia and Ourselves," NAT'L REVIEW, June 19, 2000.

101 At the most recent Shanghai Five summit in Dushanbe, Tajikistan, on July 5, 2000, the assembled heads of state noted that "the 1972 Anti-Ballistic Missile (ABM) Treaty must be unconditionally maintained and strictly respected," and that "the Asia-Pacific region will see its stability and security destroyed by an eventual deployment of the theater missile defense (TMD) system, which will lead to an escalation of the arms race." They explicitly opposed TMD for Taiwan. "Shanghai Five Nations Sign Joint Statement," PEOPLE'S DAILY, July 6, 2000. *See also* Sharon LaFraniere, "Missile Shield Under Attack," WASH. POST, July 6, 2000, p. A14.

102 Interview with Marshal Sergeyev in "Sergeyev Warns of Danger to Strategic Stability from U.S. NMD," NEZAVISIMAYA GAZETA, June 22, 2000, pp.1, 6. *See also* Judith Ingram, "Russia Rejects U.S. Missile Assurances," WASH. POST, June 23, 2000.

103 "[The two Presidents] agree that the international community faces a dangerous and growing threat of proliferation of weapons of mass destruction and their means of delivery, including missiles and missile technologies, and stress their desire to reverse that process. ... They agree that this new threat represents a potentially significant change in the strategic situation and international security environment." Paras. 6 and 7, Joint Statement by the Presidents of the United States of America and the Russian Federation on Principles of Strategic Stability, June 4, 2000. In Para. 8, the Joint Statement refers to "this emerging threat to security." *Id.*

104 WELT AM SONNTAG, June 11, 2000, pp. 2-3.

105 "New Russia-U.S. Arms Talks Set for Saturday," RUSSIA TODAY, June 23, 2000. *See also*, "Russia: No Progress in ABM Talks," WASH. POST, June 14, 2000. (Quoting Gen. Leonid Ivashov, head of the Ministry of Defense Department of International Cooperation, as accusing the United States of "demoniz[ing]" North Korea and stating, "We evaluate the threats, the true missile threat, to the United States, as being nil.")

106 David Hoffman, "Russian Generals Diverge from Putin-Clinton Stance on Missile Threat," WASH. POST, June 30, 2000, A27. Gen. Ivashov attributed Iran's interest in acquiring missiles to "the wish to create a counterbalance to deployment of missiles by neighbors--Israel above all--and to the presence and constant involvement of American military personnel in the Persian Gulf." *Id.*

107 Igor Ivanov, Foreign Minister, Russian Federation, "The Missile Defense Mistake: Undermining Strategic Stability and the ABM Treaty," FOREIGN AFFAIRS, Vol. 79, No. 5, Sept./Oct. 2000.

108 2000 Foreign Policy Concept of the Russian Federation, July 28, 2000.

109 Joint Statement on the ABM Issue by the Presidents of the People's Republic of China and the Russian Federation, July 18, 2000.

110 *Id.*

111 "Democratic People's Republic of Korea-Russia Joint Declaration," P'yongyang Korean Central Broadcasting Station, July 20, 2000. On the issue of relations between the two Korean governments, Moscow and P'yongyang announced that they would not "permit outside interference in this process," *i.e.*, possibly that the four-party negotiations involving both Koreas, the PRC, and the U.S. should be replaced by purely bilateral intra-Korean negotiations excluding the United States. The two governments promise full consultation in the event of threat of invasion or threats to peace and security. By jointly promising not "to participate in any kind of action, measure or alliance ... opposed to the stability of the other's sovereignty, independence, and territory," Russia could possibly be promising not to participate in any multilateral sanctions against North Korea, no matter what the North Korean action that provoked them and notwithstanding the authority imposing them. Indeed, Russia may be committing to veto any action against North Korea by the U.N. Security Council, the only body that Russia deems competent to authorize such action. The summit was preceded in February 2000 by conclusion of a new Russian-North Korean Treaty of Friendship to replace the Soviet-era alliance scrapped by Yeltsin.

112 Cf. Michael Richardson, "Russia Assures U.S. on North Korea Missile Program," INTERNATIONAL HERALD TRIBUNE, July 28, 2000, with Doug Struck, "North Korean Missile Stance Unclear," WASH. POST, July 29, 2000 (North Korean Foreign Minister tells Secretary of State Albright in Bangkok that he "declined to provide further clarification."). As the House Select Committee on U.S. National Security and Military/Commercial Concerns with the People's Republic of China documented in great detail in 1999, the process of integrating satellites and launch rockets provides extensive opportunities for transfer of militarily significant technical expertise.

113 For example, P'yongyang had already promised the United States at a September 1999 meeting in Berlin to impose a moratorium on launches as long as North Korea felt that bilateral negotiations over the launches were proceeding satisfactorily. Similarly, the Clinton administration initially claimed that the 1994 Agreed Framework froze the DPRK nuclear program in its entirety, only to subsequently discover that its incompetent negotiation had secured only a freeze on nuclear activities at two locations.

114 "Just Kidding in Korea," WASH. POST, Aug. 16, 2000.

115 Press Conference by President Clinton and President Yeltsin, Jan. 14, 1994.

116 Testimony of J. Michael Waller before the House Armed Services Committee Subcommittee on Military Research and Development, Mar. 13, 1997.

117 Remarks by the President to the People of the Toledo Area, Aug. 26, 1996. This statement and the many others like it by the Clinton administration fail to account for the missiles from the People's Republic of China that are still aimed at the United States. The PRC rejected a Clinton proposal for a similar missile detargeting agreement.

118 Testimony of Bruce G. Blair before the House Armed Services Committee Subcommittee on Military Research and Development, Mar. 13, 1997.

119 In a July 1, 1996, letter to the House National Security Committee, then-Secretary of Defense Perry wrote that, "There are no procedures to verify detargeting."

120 "Don't Count Them Out; Russia Continues to Prepare for War by Upgrading Missile Systems, as Does the United States," 60 Minutes, June 18, 1995.

121 Testimony of Bruce G. Blair before the House Armed Services Committee Subcommittee on Military Research and Development, Mar. 13, 1997.

122 *Id.*

123 "Russian Expert Comments on Retargeting Problem," Itar-TASS, March 10, 1995.

124 The administration's refusal to submit the Kyoto agreement to the Senate, its duplicitous concealment from Congress of the so-called "Iran-Bosnia affair," and its humiliating defeat in the Comprehensive Test Ban Treaty vote are all similar examples of a foreign policy process that is at once fundamentally dishonest and self-defeating.

125 Deputy Secretary Talbott failed to respond to repeated oral and written requests for testimony by the Speaker's Advisory Group, which comprises *inter alia* eight committee and subcommittee chairmen with jurisdiction over Russia policy.

126 Letter to President Clinton of Senate Majority Leader Trent Lott, Chairmen Jesse Helms, Senate Foreign Relations Committee, John Warner, Senate Armed Services Committee, and Mitch McConnell, Senate Appropriations Committee Foreign Operations Subcommittee, July 18, 2000.

127 Indeed, the Democratic Views in the International Relations Committee's report on the Iran Missile Proliferation Sanctions Act of 1997 criticized the administration's "weak" consultation process and unwillingness to provide detailed, timely information from the Executive branch ... "Iran Missile Proliferation Sanctions Act of 1997," Report of the Committee on International Relations, H.R. Rept. No. 105-375, 105th Cong., 1st Sess. Pg. 14 (1997).

128 Simon Saradzhyan, "U.S. NMD Effort Fueling Russia's New Missile Plan," DEFENSE NEWS, July 10, 2000.

129 Bill Gertz, "Russia sells missile technology to North Korea," WASH. TIMES, June 30, 2000, p. A1.

130 See Chapter 9 *supra*.

131 Russia recently announced that President Putin will visit Libya. Charles Clover, "Putin to visit Libya," FINANCIAL TIMES, July 31, 2000.

Chapter 11

1 HENRY KISSINGER, DIPLOMACY (New York: Simon and Schuster, 1994), p. 812. See also James Billington, "Russia: Between a Dream and a Nightmare," N.Y. TIMES, June 17, 1998, p. A31 ("America has fought five wars in this century--all basically to prevent authoritarian power from gaining control of Eurasia.").

2 More distantly, our policy represents a continuation of the historic Anglo-American opposition to hegemonic dominance by any great power--a policy dating back to British policy toward Louis XIV and Napoleon. At least since the era of the Napoleonic Wars, critics of this British or American policy have themselves denounced it as a screen for hegemonic ambitions. Current criticism of U.S. "hegemonism" faithfully echoes this argument.

3 As Kissinger wrote in describing the opening to China, "We did not consider our opening to China as inherently anti-Soviet. ... We moved toward China ... to shape a global equilibrium. It was not to collude against the Soviet Union but to give us a balancing position to use for constructive ends--to give each Communist power a stake in better relations with us. Such an equilibrium could assure stability among the major powers, and even eventual cooperation, in the Seventies and Eighties." HENRY KISSINGER, WHITE HOUSE YEARS, (Boston: Little, Brown and Company, 1979), pp. 191-192. "The prospect of military conflict along the Sino-Soviet border faced us with nightmarish choices." *Id.* at 693-94. "Triangular diplomacy ... could not be a crude attempt to play off China against the Soviet Union. ... To the extent that we tried to aggravate rivalry we would lose in other ways. ... Any attempt to manipulate Peking might drive China into detaching itself from us, perhaps to re-examine its options with the Soviet Union, to gain control of its own destiny. Equally, any move by us to play the Chinese card might tempt the Soviets to end their nightmare of hostile powers on two fronts by striking out in one direction before it was too late. ... Equilibrium was the name of the game." *Id.* at 763-64.

4 The most acute phase of Sino-Soviet military tension had ended by 1982, when the U.S.S.R. attempted a limited rapprochement with Beijing as its relations with NATO worsened.

5 Stuart D. Goldman and Robert Sutter, "Russian-Chinese Cooperation: Prospects and Implications", CRS Report for Congress, Jan. 27, 1997.

6 ALEXANDER A. SERGOUNIN, SERGEI V. SUBBOTIN, SIPRI RESEARCH REPORT NO. 15: RUSSIAN ARMS TRANSFERS TO EAST ASIA IN THE 1990S (Oxford: Oxford University Press, 1999), p. 71. Even that modest level, however, made Russia the PRC's leading arms supplier, reflecting the efficacy of Western nations' export controls and the PRC's tendency during this period not to use hard currency to purchase significant Western weapons systems.

7 Lena Sun, "Russia, China Set Closest Ties in Years," WASH. POST, Dec. 19, 1992, p. A1.

8 For a Chinese comparison of Russia's ties to the West and the PRC in this period, Li Jingie, "From Good Neighbors to Strategic Partners," RAPPROCHEMENT OR RIVALRY?: RUSSIA-CHINA RELATIONS IN A CHANGING ASIA, Sherman Garnett, ed., (Washington, D.C.: Carnegie Endowment for International Peace, 2000) p. 73 ("The great transformation in Eastern Europe, the one-by-one fall of communist parties, and the subsequent breakup of the Soviet Union did, in fact, interrupt relations with China. At first, the new Russian leadership ranked China behind Japan, India, and South Korea in its Asian foreign policy priorities. The democratic faction still rebuked China on human rights and democracy questions, from time to time. Under these circumstances, many Chinese political leaders and analysts estimated that the international situation had become extremely serious, worrying that a united West joined by the new Russia might be able to concentrate pressure on China as the only remaining socialist power.") Li is director of the Institute of East European, Russian, and Central Asian Studies of the Chinese Academy of Sciences.

9 As Dmitri Simes stated, "[I]n recent years we have seen Russia and China consistently maintain far closer relations than either of them has with the United States. This is the first time since thirty years ago, before the era of President Richard Nixon, that this could be said." Martin Sieff, "Russia-China summit aims at U.S. policy," UPI, August 24, 1999.

10 Michael Dobbs and Don Oberdorfer, "Yeltsin Appeals For American Aid; Reforms 'Must Succeed,' Hill Told," WASH. POST, June 18, 1992, p. A1.

11 Jim Hoagland, "'We Should Be Building Trust' With the New Russia," WASH. POST, June 29, 2000, p. A31.

12 Elaine Sciolino, "In Speech to Russian Duma, Clinton Urges Careful Policy Choices," N.Y. TIMES, June 2, 2000, p. A1.

13 Yeltsin continued:

It is a neighbor, with whom we share the longest border in the world and with whom we are destined to live and work side by side forever. On the success of our cooperation with China depends Russia's future. Relations with China are extremely important to us in global politics as well. If we can rely on the Chinese shoulder in our relations with the West, the West will be more considerate to Russia.

Yevgeny Bazhanov, "Russian Perspectives on China's Foreign Policy and Military development," IN CHINA'S SHADOW: REGIONAL PERSPECTIVES ON CHINESE FOREIGN POLICY AND MILITARY DEVELOPMENT, Jonathan Pollack and Richard Yang, eds., (Santa Monica, Cal: RAND, 1998), p. 80 (footnote omitted).

14 Lena Sun, "Russia, China Set Closest Ties in Years," WASH. POST, Dec. 19, 1992, p. A1.

15 Yevgeny Bazhanov, "Russian Perspectives on China's Foreign Policy and Military Development," IN CHINA'S SHADOW: REGIONAL PERSPECTIVES ON CHINESE FOREIGN POLICY AND MILITARY DEVELOPMENT, Jonathan Pollack and Richard Yang, eds., (Santa Monica, Calif.: RAND, 1998), pp. 70, 71-73. These generalizations are subject to numerous exceptions. "Westernizers" and "reformers" often proved to be enthusiastic proponents of "multipolarity," or at least opportunistic enough to truckle to anti-American opinion; some extreme nationalists were even more paranoid about a Chinese inundation of Siberia than they were about a NATO invasion of Russia.

16 In this regard, the failure of Russian reforms has had a highly-significant opportunity cost in the PRC, as well, by discrediting what the PRC leadership characterizes as the "Western model" of reform. The PRC leadership remains acutely aware that one of the key triggers for the Tiananmen demonstrations was the Chinese public's awareness of the reform process in the U.S.S.R., and in particular the visit of then-Soviet President Mikhail Gorbachev to Beijing. Had subsequent Russian reforms succeeded, they would have powerfully reinforced pro-reform opinion in the PRC.

17 Lena Sun, "Russia, China Set Closest Ties in Years," WASH. POST, Dec. 19, 1992, p. A1.

18 The number of individual actors involved and the weakness of central controls in Russia make it hazardous to assume a coherent policy making apparatus with a consistent policy. *See* Stephen Blank, "Russia's clearance sale," JANE'S INTELLIGENCE REVIEW, Nov. 1, 1997.

19 Jennifer Anderson, "The Limits of Sino-Russian Strategic Partnership," (Adelphi Paper 315), The International Institute for Strategic Studies 1997, p. 20 ("In late May 1994, Jiang informed Chernomyrdin that China was 'willing to join Russia in raising Sino-Russian relations to a new level,' and set the date for his first visit to Russia since the collapse of the Soviet Union.").

20 "Sino-Russian Joint Statement," Xinhua, Sept. 3, 1994; *see also* "Jiang, Yeltsin on Ties," Xinhua, May 8, 1995 (Remarks of President Jiang). At a time when Russian military doctrine was broadly lowering the threshold for first use of nuclear forces, Russia and the PRC agreed to adopt a no-first-use nuclear doctrine and a detargeting agreement.

21 Henry Kissinger, "Moscow and Beijing: A Declaration of Independence," WASH. POST, May 14, 1996, p. A15.

22 *Quoted in* Peter W. Rodman, testimony before the House International Relations Committee, Hearing on "The U.S. and Russia: Assessing the Relationship," July 16, 1998, p. 93 (footnote omitted).

23 Li Jingjie, "From Good Neighbors to Strategic Partners," RAPPROCHEMENT OR RIVALRY?: RUSSIA-CHINA RELATIONS IN A CHANGING ASIA, Sherman Garnett, ed., (Washington DC: Carnegie Endowment for International Peace, 2000), p. 86. *See also* Jennifer Anderson, "The Limits of Sino-Russian Strategic Partnership," (Adelphi Paper 315), The International Institute for Strategic Studies 1997, p. 22 ("Under Primakov, the Russian Foreign Ministry officially claimed the priority status of the relationship with Beijing; Chernomyrdin promoted the interests of the industrial, energy and arms sectors trading with China.").

24 *Id.* at 82. Similarly, whereas the Russian Foreign Ministry ranked the PRC sixth among Russian concerns in 1993 (after the CIS, arms control and international security, economic reform, and relations with the U.S. and Europe), by 1996 Foreign Minister Primakov ranked the PRC third, after the CIS and Eastern Europe. Alexander Lukin, "Russia's Image of China and Russian-Chinese Relations," EAST ASIA: AN INT'L QUARTERLY, vol. 17, no. 1, Spring 1999.

25 Sino-Russian Joint Communiqué, signed in Beijing by Chinese President Jiang Zemin and Russian President Boris Yeltsin, April 25, 1996.

26 Jennifer Anderson, "The Limits of Sino-Russian Strategic Partnership," (Adelphi Paper 315), The International Institute for Strategic Studies, 1997, p. 21 ("[J]ust 24 hours before the meeting, Yeltsin telephoned Jiang from his stop-over in Khabarovsk, formally proposing that the two establish a 'strategic partnership for the twenty-first century'. Jiang immediately accepted the proposal."); *see also* Li Jingjie, "From Good Neighbors to Strategic Partners," RAPPROCHEMENT OR RIVALRY?: RUSSIA-CHINA RELATIONS IN A CHANGING ASIA, Sherman Garnett, ed. (Washington DC: Carnegie Endowment for International Peace, 2000), p. 88; Stephen Blank, "Russia's clearance sale," JANE'S INTELLIGENCE REVIEW, Nov. 1, 1997.

27 *Id.*

28 Peter W. Rodman, testimony before the House International Relations Committee, hearing on "the U.S. and Russia: Assessing the Relationship," July 16, 1998, p. 95 (footnote omitted). During Yeltsin's April 1996 visit to the PRC he and President Jiang also met in Shanghai with the Presidents of three Central Asian republics, Kazakhstan, Kyrgyzstan, and Tajikistan, established the so-called "Shanghai-Five" group. Creation of this grouping, which agreed to conduct periodic summits, reflects common Sino-Russian concerns over the potential dangers of ethnically or religiously-based separatism across the expanse of central Eurasia, reflecting Beijing's concerns over Tibet and Xinjiang and Russia's concerns over unrest in the Caucasus and Central Asia. These concerns are shared to differing degrees by the Central Asian governments themselves. These concerns have intensified for all parties recently. The second Chechen conflict has heightened Russian and Central Asian sensitivity to perceived "Islamist" threats, and intensified Uighur separatist violence--not just in Xinjiang but in Beijing also. *See* Mark Burles, CHINESE POLICY TOWARD RUSSIA AND THE CENTRAL ASIAN REPUBLICS (Santa Monica, Calif.: RAND, 1999), pp. 9-10. At the most recent Shanghai Five summit in Dushanbe, Tajikistan on July 5, 2000, President Jiang called for the member-states to "cooperate in the security field at a deeper level and take joint actions to crack down on the activities of all brands of separatist, terrorist, and extremist forces." "'Shanghai Five' Summit Successfully Ends in Dushanbe," Xinhua Domestic Service, July 5, 2000. In addition, the Shanghai Five signed Five-Party Military Agreements in 1996 and 1997 that significantly demilitarized the former Sino-Soviet border, and were complementary to the Sino-Russian border agreements.

29 Joint Sino-Russian Communiqué issued during PRC premier Li Peng's visit to Moscow of late December 1996, Xinhua, Dec. 26-28, 1996 (FBIS-CHI-96-251).

30 "Rodionov Identifies 'Sources of Military Danger,'" Interfax News Agency, Dec. 25, 1996.

31 Peter W. Rodman, testimony before the House International Relations Committee, hearing on "The U.S. and Russia: Assessing the Relationship," July 16, 1998, pp. 96-97; Grigory Arslanov, "Russian Defense Minister Hails China Strategic Partnership," Itar-TASS, Apr. 15, 1997.

32 By contrast, the much less elaborate Joint Statement issued by Presidents Jiang and Clinton during the October 29, 1997 summit in Beijing announced the two Presidents' "determin[ation] to build a constructive strategic partnership ... through increasing cooperation to meet international challenges and promote peace and development in the world."

33 See Chapter 8 *supra*.

34 See "Yeltsin, China's Jiang Call for a 'Multipolar' World," ROSSIISKIYE VESTI, April 25, 1997. The Joint Declaration stated that "[n]o one country should strive for hegemony, conduct a foreign policy from a position of strength, or monopolize international affairs;" it opposed "attempts to expand and strengthen military blocs, since this trend may pose a threat to the security of individual countries and cause tension on a regional and global scale"--a swipe at both NATO enlargement and the nexus of bilateral U.S. security ties in the Western Pacific. It espoused settlement of international differences "without using force or threatening to use it," and affirmed that the U.N.'s role "cannot be supplanted by any other international organization"--a pointed jibe at American military interventions in various contexts unsanctioned by U.N. mandates. It omits even pro-forma references to such U.S. desiderata as weapons proliferation or human rights. *Id.*

35 See, e.g., Joint Statement on Common Security Challenges at the Threshold of the Twenty-First Century, September 2, 1998; Kremlin press conference by President Clinton and President Yeltsin, Sept. 2, 1998.

36 *Id.* (Yeltsin reference to disagreements over Iraq, Kosovo, NATO).

37 Foreign Minister Ivanov called the NATO bombing the worst aggression in Europe since World War II, and called for war crimes trials for the NATO leaders who had instigated airstrike "genocide." *Id.* Senior Russian officers were less restrained, and did not confine themselves to rhetoric: General Kvashnin, the Chief of the Russian General Staff, publicly volunteered to lead a division, while General Kortunov, the commander-in-chief of the strategic air force, conducted an exercise simulating a nuclear war over the Balkans. Russia sent a naval presence to the area and provided intelligence support to Milosevic. The major Russian initiative in Yugoslavia itself--the surprise deployment of Russian paratroopers to Pristina airport--remains of uncertain provenance, although Yeltsin quickly disavowed it and abandoned the General Staff's related efforts to secure an independent Russian peacekeeping zone in Kosovo. See Michael McFaul, "Russia's Many Foreign Policies," DEMOKRATIZATSIYA, Summer 1999, pp. 406-7. (citation omitted); see also Paul E. Gallis, "Kosovo: Lessons Learned from Operation *Allied Force*," CRS Report for Congress, Nov. 11, 1999, p. 13.

38 Yeltsin's political maneuvering during this period, which included appointing Viktor Chernomyrdin as special mediator in mid-April and replacing Primakov as prime minister in mid-May, have given rise to speculation concerning the extent to which he was leading, following, or attempting to undercut both popular and official Russian opposition to NATO's Kosovo operations.

39 "Russian PM seeks closer strategic ties with China," Reuters, June 10, 1999.

40 Mikhail Shevtsov, "China's general visits Russian missile division," Itar-TASS, June 12, 1999.

41 "Chinese military official speaks of rapprochement with Russia," Interfax News Agency, June 13, 1999.

42 There is some implication that his reference was both to the West and to "westernizers" within Russia.

43 Ben Aris and David Rennie, "Yeltsin presses for anti-NATO alliance with the Chinese," Electronic Telegraph, Aug. 26, 1999. Foreign Minister Igor Ivanov elaborated on Yeltsin's comment: "You need to understand this as a fight for the future world order, but we are not indifferent to what happened in the Balkans and the Persian Gulf and other situations that threaten stability." "Russian, Chinese Presidents discuss 'strategic partnership,'" Agence France Presse, Aug. 25, 1999.

44 "Premier of State Council of China hails Russo-Chinese ties," Itar-TASS, Aug. 24, 1999.

45 Michael Walker, "Russia, China plug a 'multipolar' world," THE STRAITS TIMES, Sept. 1, 1999.

46 Oliver August, "China increases nuclear threat," LONDON TIMES, Sept. 2, 1999; Simon Saradzhyan, "Russia ponders selling nuclear submarines to China," DEFENSE NEWS, Sept. 27, 1999 (reporting that Primakov approved *Akula* sale in April 1999, and that the submarines would be able to attack carrier battle groups in the open sea).

47 Michael Walker, "Russia, China plug a 'multipolar' world," THE STRAITS TIMES, Sept. 1, 1999; "China to get first SU-30MKs," JANE'S DEFENCE WEEKLY, July 26, 2000.

48 Joint Communique, Dec. 10, 1999.

49 Bill Gertz and Rowan Scarborough, "Inside the Ring," WASH. TIMES, Sept. 3, 1999, p. A6.

50 "Sino-Russian summit begins," FINANCIAL TIMES, July 18, 2000. Apparently rumors that Moscow was considering curtailing transfers of military technology because of fears that they would undercut sales of off-the-shelf Russian weaponry are unfounded. See "Russia Rethinking Scope of Arms Sales to China?", JAMESTOWN MONITOR, Vol. 6, Issue 52, Mar. 14, 2000.

51 Beijing Declaration by the People's Republic of China and the Russian Federation, July 18, 2000. The Declaration reaffirms all previous Sino-Russian political documents and promises further preparations for a formal China-Russia treaty of friendship and cooperation. *Id.*

52 "Jiang Hails Summit with Putin," SOUTH CHINA MORNING POST, July 18, 2000.

53 "Russia Rethinking Scope of Arms Sales to China?", JAMESTOWN MONITOR, Vol. 6, Issue 52, Mar. 14, 2000.

54 FOREIGN POLICY CONCEPT OF THE RUSSIAN FEDERATION, Mar. 25, 1993. The 1993 *Concept* expressly disclaimed suspicion of Western designs on the CIS, stating that "[t]he leading democratic states of the world are interested in ensuring stability in the geopolitical space of the former U.S.S.R., and recognize the role of Russia and its policy in supporting such stability."

55 *Id.* at 13. The *Concept* noted that good relations with the PRC would facilitate implementation of internal reforms and ensure that "third countries are not tempted to use it against Russia, just as China is not tempted to play the 'Russian card' in its relations with other countries."

56 *Id.*

57 *Id.*

58 "China Issues Defense White Paper," Xinhua News Agency, July 27, 1998. The 1998 PRC *White Paper* nonetheless concluded that "[p]eace and development are the major themes of the present era" and "[i]n general the present international security situation has continued to trend toward relaxation." This note of somewhat forced optimism has largely vanished from the PRC's official formulations today. See *infra*.

59 Ministry of Foreign Affairs of the PRC, "China's View on the Development of Multi-polarity." This document concludes more optimistically that hegemonism "is against the tide of history and is doomed to failure." It too nevertheless concludes that "overall the general trend of the international situation [is] moving toward relaxation. and any attempt aimed at setting up a single pole in the world is doomed to failure." *Id.* The tension in these documents between acknowledging current and, on the evidence of Desert Fox and Kosovo, possibly growing American military power and predicting the coming demise of hegemonism reflects a continuing debate within the PRC's foreign policy establishment about the pace of the multipolar trend. See generally MICHAEL PILLSBURY, CHINA DEBATES THE FUTURE SECURITY ENVIRONMENT (Washington, D.C.: National Defense University Press, 2000) pp. 3-62.

60 Stephen J. Blank, U.S. Army War College, "New Strategic Trends in Russo-Chinese Relations," testimony before the House Armed Services Committee hearing on "Military Capabilities of the People's Republic of China," July 19, 2000, p. 6 ("Both partners embrace positions on major issues of today's national security agenda in direct opposition to the United States and its allies in the U.N. and are particularly active in doing so across Central, South, and East Asia. Their partnership comprises economic, political, ideological, and military dimensions, and in each of these dimensions of the partnership Beijing and Moscow are forming closer and deeper bonds despite difficulties, and ever more openly voice the partnership's

overt anti-American character.").

61 John Pomfret, "Russians Help China Modernize its Arsenal; New Military Ties Raise U.S. Concerns," WASH. POST, Feb. 10, 2000, p. A17. *See, e.g.,* Wen Jen, "China and Russia to Jointly Hold Military Exercises," HONG KONG TAI YANG PAO, Aug. 7, 2000 (asserting that Russia and the PRC had agreed during a July 27, 2000, hotline discussion to expedite conclusion of a treaty of friendship and cooperation, cooperate in developing a new generation of aircraft and high-technology weapons, expand military exchanges, conduct joint military exercises, and purchase \$15 billion in advanced military equipment).

62 Stephen J. Blank, U.S. Army War College, testimony before the House Armed Services Committee on "New Strategic Trends in Russo-Chinese Relations," July 19, 2000, pp. 4-6 and notes 11-18.

63 Blank testified:

At least since 1995 Russian leaders--Defense Minister Pavel Grachev in 1995, according to U.S. intelligence analysts, the Russian government in 1998, Vladimir Putin in 1999--have regularly asked China for a military-political alliance. ... The Russian media has often talked of an alliance and German diplomats in Moscow believed it was possible by 1996. ... Publicly China continues to reject these requests.

Id.

Professor Blank notes that there is also a substantial body of evidence that conflicts with these reports.

64 *Id.* at 6.

65 The consensus view of policy makers in Moscow is that arms sales to the PRC serve both economic and policy interests, and that the point of potential conflict between those interests has not yet been reached. Yevgeny Bazhanov, Vice President of the Russian Diplomatic Academy and Director of the Foreign Ministry's Institute of Contemporary International Studies, wrote in August 1997 that Russian arms sales to the PRC are "profitable not only economically, but politically as well, [since] they tie Russia and China to each other and help build our mutual confidence." Yevgeny Bazhanov, "Russian Perspectives on China's Foreign Policy and Military Development," IN CHINA'S SHADOW: REGIONAL PERSPECTIVES ON CHINESE FOREIGN POLICY AND MILITARY DEVELOPMENT, Jonathan Pollack and Richard Yang, eds., (Santa Monica, Calif.: RAND, 1998), p. 81 (footnote omitted). *See also* Sherman W. Garnett, Senior Associate, Carnegie Endowment, testimony before the House International Relations Committee, hearing on "Russian Foreign Policy: Proliferation to Rogue Regimes," Mar. 25, 1999, p. 59 ("Sino-Russian arms and defense technology sales are driven by several different factors. There is obviously an ideological element in the Sino-Russian relationship as a whole. ... Russia's desperate economic condition provides additional incentive for arms sales. ... Greed is a considerable stimulus for much of Russian behavior in the arms and technology area. Industrialists, middlemen and even the regulators make money. ... [And] public gains are frequently cited to generate further support for the sales. Arms sales are seen, rightly or wrongly, as a critical element in the survival of the Russian military industrial base.")

66 Stephen J. Blank, U.S. Army War College, "New Strategic Trends in Russo-Chinese Relations," testimony before the House Armed Services Committee hearing on "Military Capabilities of the People's Republic of China," July 19, 2000, p.7 (footnote omitted). As Professor Blank further testified, these dollar figures include only official transfers and omit not only "what we know to be large-scale military-technological transfers in the so-called gray and black market" but also "the large number of human exchanges either through the internet or through Russian scientists in China or Chinese scientists in Russia who are working to upgrade Chinese capabilities." *Id.*

67 Sherman Garnett, Senior Associate, Carnegie Endowment, testimony before the House International Relations Committee, hearing on "Russian Foreign Policy: Proliferation to Rogue Regimes," Mar. 25, 1999, p. 58.

68 Piotr Butowski, "Show Report--Farnborough," JANE'S DEFENCE WEEKLY, Aug. 9, 2000.

69 The 1996 decision to license Su-27 production is an interesting example of the interplay of the differing institutional interests at play in Russian proliferation of advanced weaponry: reportedly the license was transferred by the Sukhoi Design Bureau "without official authorisation or knowledge," in order to generate funds for development of the Bureau's Su-37 fighter; "Moscow had to accept this deal, as retraction would have angered China and undermined a crucial pillar of its Asian and overall foreign policy." *See* Stephen Blank, "Russia's clearance sale," JANE'S INTELLIGENCE REVIEW, Nov. 1, 1997.

70 ALEXANDER A. SERGOUNIN, SERGEI V. SUBBOTIN, SIPRI RESEARCH REPORT NO. 15: RUSSIAN ARMS

TRANSFERS TO EAST ASIA IN THE 1990S (Oxford: Oxford University Press, 1999), pp. 75-76. *See also* "Russia to Send China First Su-30MKK Fighters by End of 2000," Itar-TASS, July 6, 2000; Paul Beaver, "China acquires more arms technology," JANE'S INTELLIGENCE REVIEW, Nov. 1, 1997 (PRC production license for Su-27s worth \$1.5 billion over 10 years).

71 Richard D. Fisher, Jr., "Gallery of Known and Possible Future Foreign Military Acquisitions by China," James R. Lilley and David Shambaugh, eds., CHINA'S MILITARY FACES THE FUTURE, (New York: M.E. Sharpe, 1999), p. 147.

72 John Pomfret, "Russians Help China Modernize its Arsenal; New Military Ties Raise U.S. Concerns," WASH. POST, Feb. 10, 2000, p. A17. Only one model of the Su-37 currently exists, though it is currently being advertised in a Rosvooruzhenie catalog. Because of the Su-37's advanced capabilities and the Tu-22M's strategic functions, if the reports concerning them are correct they would represent both the collapse of any qualitative restrictions on Russian sales of military aircraft to the PRC and a willingness to suffer extremely severe repercussions in relations with other Asia-Pacific powers. *See, e.g.*, Richard D. Fisher, Jr., "Gallery of Known and Possible Future Foreign Military Acquisitions by China," James R. Lilley and David Shambaugh, eds., CHINA'S MILITARY FACES THE FUTURE, (New York: M.E. Sharpe, 1999), p. 147 (sale of Tu-22M would "likely result in a political firestorm for Russia in Asia").

73 Stephen Blank, "Russia's clearance sale," JANE'S INTELLIGENCE REVIEW, Nov. 1, 1997.

74 Sam Greene, "Russia Reaping Rewards from Lucrative Arms Sales to China," RUSSIA TODAY, July 18, 2000.

75 "Recent Developments in a Flourishing Arms Trade," JANE'S INTELLIGENCE REVIEW, Nov. 1, 1997.

76 Steven J. Zaloga, "Sovremenny: the instrument of Eastern power projection," JANE'S INTELLIGENCE REVIEW, December 1, 1997. In 1998, Russia announced that it would sell the PRC a version of the Moskit adapted for launch from both the PRC's Su-27s and Su-30MKKs. Michael Waller, "Will Gore's Slips Sink U.S. Ships?", INSIGHT, May 15, 2000, pp. 22-24.

77 Trevor Hollingsbee, "Sovremenny delivery will give PLAN a bigger sabre to rattle over Taiwan," JANE'S INTELLIGENCE REVIEW, Jan. 1, 2000.

78 "China to Receive Second Russian Destroyer in November 2000," Novosti News Agency, July 10, 2000.

79 J. Michael Waller, "Will Gore's Slips Sink U.S. Ships?", INSIGHT, May 15, 2000, pp. 22-24.

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81 June Teufel Dreyer, University of Miami, testimony before the House Armed Services Committee hearing on "Military Capabilities of the People's Republic of China," July 19, 2000. *See also* John Pomfret, "Russians Help China Modernize its Arsenal; New Military Ties Raise U.S. Concerns," WASH. POST, Feb. 10, 2000, p. A17 ("The U.S. military has yet to come up with a viable deterrent to the [Moskit] missile. ...").

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84 U.S. Department of Defense, Annual Report on the Military Power of the PRC, June 2000, p. 16. *See also* Richard D. Fisher, Jr., "Foreign Arms Acquisition and PLA Modernization," James R. Lilley and David Shambaugh, eds., CHINA'S MILITARY FACES THE FUTURE, (New York: M.E. Sharpe, 1999), pp. 102-3.

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(reporting that Primakov approved *Akula* sale in April 1999, and that the submarines would be able to attack carrier battle groups in the open sea). Russian sale of the *Typhoon* SSBN seems unlikely.

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90 James Lilley, former Ambassador to the PRC, testimony before the Senate Governmental Affairs Committee Subcommittee on International Security hearing on "China and 'Proliferation,'" Apr. 10, 1997; Stephen Blank, "Russia's clearance sale," JANE'S INTELLIGENCE REVIEW, Nov. 1, 1997.

91 Christoph Bluth, "Russia and China consolidate their new strategic partnership," JANE'S INTELLIGENCE REVIEW, Aug. 1, 1998. For a detailed discussion of PRC acquisitions from Russia and other suppliers, *see* Richard D. Fisher, Jr., "Gallery of Known and Possible Future Foreign Military Acquisitions by China," James R. Lilley and David Shambaugh, eds., CHINA'S MILITARY FACES THE FUTURE, (New York: M.E. Sharpe, 1999), pp. 85 *et seq.*

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94 MARK BURLES, CHINESE POLICY TOWARD RUSSIA AND THE CENTRAL ASIAN REPUBLICS, (Santa Monica, Calif.: RAND, 1999), p. 36 (footnotes omitted); *see also* John Pomfret, "Russians Help China Modernize its Arsenal; New Military Ties Raise U.S. Concerns," WASH. POST, Feb. 10, 2000, p. A17 ("Asian officials ... say that as many as 2,000 Russian technicians are employed by Chinese research institutes working on laser technology; the miniaturization of nuclear weapons; cruise missiles; space-based weaponry; and nuclear submarines."); Stephen Blank, "Russia's clearance sale," JANE'S INTELLIGENCE REVIEW, Nov. 1, 1997:

More recently the Russian media reported that China's Military-Technical Co-operation Co-ordinating Centre invites Russian weapons designers and other specialists to China for preliminary talks. Russian scientists give mainly 'secret' lectures on Russian defense exports. Chinese sources report that the information they receive saves around 15-20 years of research and development and hundreds of millions of dollars ... Hundreds of Chinese technicians work at Russian defense plants and many Russian plants work exclusively for the Chinese market or Chinese owners. Chinese delegations of highly-skilled specialists wander around Russian defense plants and negotiate contracts. They see practically everything so that these factories might win orders.

Anthony H. Cordesman, "The Strategic Impact Of Russian Arms Sales and Technology Transfers," Center for Strategic and International Studies, April 5, 1999, pp. 13, 27 ("The most critical transfers of technology may take the form of 'invisible' sales of designs, industrial techniques, specialized production equipment, and advisory services. These ... may be proportionally more damaging than conventional weapons transfers. ... [I]t is important to note that China may have far more access to Russian technology than is apparent from major arms buys or than Russia intends.").

95 "China's Military Modernization," in Zalmay Khalilzad, *et al.*, THE UNITED STATES AND A RISING CHINA: STRATEGIC AND MILITARY IMPLICATIONS, (Santa Monica, Calif.: RAND, 1999), p. 49.

96 Under Secretary Walter B. Slocombe, testimony before the House International Relations Committee Subcommittee on Asia and the Pacific, May 11, 1998.

97 Ambassador Stephen Sestanovich, response to questions for the record, in House International relations Committee, Hearings on "The U.S. and Russia: Assessing the Relationship," July 16, 1998, pp. 158-59.

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99 Secretary of State Madeleine Albright, response to questions for the record, U.S. Senate Committee on Foreign Relations, Feb. 2, 2000.

100 Anthony H. Cordesman, "The Strategic Impact Of Russian Arms Sales and Technology Transfers," Center for Strategic and International Studies, Apr. 5, 1999, p. 22.

101 Chairman Floyd Spence, "China in the Ascendancy: A Growing Threat to U.S. Security?", House Armed Services Committee, National Security Report, May 2000, p. 3.

102 Sherman Garnett, testimony before the House International Relations Committee, hearing on "Russian Foreign Policy: Proliferation to Rogue Regimes," Mar. 25, 1999, p. 58.

103 Testimony of DIA Director Lt. Gen. Patrick Hughes before the Senate Armed Services Committee, Feb. 2, 1999 ("Assuming we retain the capability and will to remain engaged worldwide, no other state--or any likely coalition or group of states--has the wherewithal to usurp the U.S. position within the next 15-20 years. The most significant potential competitors--including Russia and China--all have fewer advantages and more problems. This is especially true in the military arena.").

104 Anthony H. Cordesman, "The Strategic Impact Of Russian Arms Sales and Technology Transfers," Center for Strategic and International Studies, Apr. 5, 1999, p. 22. Cordesman is, on balance, a skeptic of the impact of the past Russian transfers on the PRC's capabilities, but he concludes that "[t]he past ... is not necessarily the prelude to the future. Some Russian technology transfers are already important, and Russia could provide China with a wide variety of far more advanced weapons that could dramatically increase its warfighting capabilities against the U.S. or its allies." *Id.* at 25.

105 Craig Smith, "Putin Visits China in Hope of Strengthening a Strategic Axis," NEW YORK TIMES, July 18, 2000, p. A11.

106 Sino-Russian trade went from \$3.9 billion in 1991 to \$5.8 billion in 1992, and peaked at \$7.68 billion in 1993. Thereafter, it fell to \$5.1 billion in 1994, \$5.5 billion in 1995, \$7.2 billion in 1996 (the year when Yeltsin and Jiang pledged that Sino-Russian trade would reach \$20 billion by 2000), \$6.12 billion, and \$5.48 billion in 1998. See Elizabeth Wishnick, "Chinese Perspectives on Cross-Border Relations," RAPPROCHEMENT OR RIVALRY?: RUSSIA-CHINA RELATIONS IN A CHANGING ASIA, Sherman Garnett, ed., (Washington, D.C.: Carnegie Endowment for International Peace, 2000), pp. 235-36

107 The PRC's northeastern rustbelt, which had banked on developing economic ties with Russia to redress its own relative underdevelopment vis-à-vis the booming south, was particularly hard-hit: Heilongjiang's trade with Russia fell by 7.2% in the second half of 1993 and by 56% in the first half of 1994. "In Heihe and other cities, stores were boarded up, streets deserted, and thousands of firms driven out of business. The brain drain to South China from Harbin and other intellectual and industrial centers continued." Gilbert Rozman, "Turning Fortresses into Free trade Zones," RAPPROCHEMENT OR RIVALRY?: RUSSIA-CHINA RELATIONS IN A CHANGING ASIA, Sherman Garnett, ed. (Washington, D.C.: Carnegie Endowment for International Peace, 2000), p. 189.

108 Russia's trade with the PRC was a fourth of South Korea's, less than a third of Taiwan's, and less than half of Germany's. Mark Burles, CHINESE POLICY TOWARD RUSSIA AND THE CENTRAL ASIAN REPUBLICS (Santa Monica, Calif.: RAND, 1999), pp. 19, 21.

109 See Elizabeth Wishnick, "Chinese Perspectives on Cross-Border Relations," RAPPROCHEMENT OR RIVALRY?: RUSSIA-CHINA RELATIONS IN A CHANGING ASIA, Sherman Garnett, ed. (Washington, D.C.: Carnegie Endowment for International Peace, 2000), pp. 249, 256, n. 92.

110 Sherman Garnett, "Limited Partnership," RAPPROCHEMENT OR RIVALRY?: RUSSIA-CHINA RELATIONS IN A

CHANGING ASIA, Sherman Garnett, ed. (Washington, D.C.: Carnegie Endowment for International Peace, 2000), p. 10.

111 Alexei D. Voskressenski, "Russia's Evolving Grand Strategy toward China, in Garnett, *id.*, at 133 ("Economics plays the largest role [in limiting the relationship].). Voskressenski is deputy head of the Russia-China Center of the Institute of Far Eastern Studies in Moscow.

112 The PRC, which became a net importer of oil in 1993, may need to import as much as 3.6 million barrels of oil a day by 2010, and in 1997 the PRC signed contracts on oil and pipeline projects in Kazakhstan worth \$9.6 billion. Of course, the PRC is also eager to develop energy and pipeline projects in Russia itself, and in 1997 also signed a contract reportedly worth \$8 billion-10 billion to develop a natural gas field near Lake Baikal and an associated pipeline to the PRC. Mark Burles, CHINESE POLICY TOWARD RUSSIA AND THE CENTRAL ASIAN REPUBLICS (Santa Monica, Calif.: RAND, 1999), pp. 24-25.

113 See, e.g., Dmitri Trenin, "The China Factor: Challenge and Chance for Russia," RAPPROCHEMENT OR RIVALRY?: RUSSIA-CHINA RELATIONS IN A CHANGING ASIA, Sherman Garnett, ed. (Washington, D.C.: Carnegie Endowment for International Peace, 2000), p. 57:

Moscow analysts now foresee the possibility of a Russian-Chinese clash in Central Asia and propose that territorial integrity of the CIS countries be ensured with the help of the Russian nuclear umbrella. ... Russia will try to close its eyes to the internal conflict in Xinjiang, but this effort will become more difficult if Beijing, frustrated in its attempts to counter Turkic and Muslim separatism, attempts direct interference in the territories of Central Asian countries, which Russia considers to be the zone of its vital interests.

For now Beijing is content to let Russia act as its gendarme in the region against ethnic and religious separatism.

114 Mark Burles, CHINESE POLICY TOWARDS RUSSIA AND THE CENTRAL ASIAN REPUBLICS (Santa Monica, Calif.: RAND, 1999), pp. 46-47. On July 21, 2000, Putin told a conference on Far Eastern development in Blagoveschensk that "[I]f we don't make a real effort to develop Russia's Far East, then in the next few decades the Russian population will be speaking mainly Japanese, Chinese, and Korean." "Putin Warns of Losing Far Eastern Region to the Orient," RUSSIA TODAY, July 21, 2000.

115 Sherman Garnett, "Limited Partnership," RAPPROCHEMENT OR RIVALRY? RUSSIA-CHINA RELATIONS IN A CHANGING ASIA, Sherman Garnett, ed. (Washington, D.C.: Carnegie Endowment for International Peace, 2000), p. 19.

116 Stephen J. Blank, U.S. Army War College, "New Strategic Trends in Russo-Chinese Relations," testimony before the House Armed Services Committee hearing on "Military Capabilities of the People's Republic of China," July 19, 2000, p. 13. Professor Blank concludes, "Thus the Sino-Russian cooperation is threatening in many ways. It seeks to arrest the spread of democracy and to threaten the United States and its allies. The comprehensive scope of Russo-Chinese political coordination aims to frustrate the realization of U.S. interests, to preserve multiple areas of conflict in the world by which to tie down or restrict and contain American power. They are actively supporting the proliferation of nuclear and perhaps chemical or biological warfare capabilities. They are attempting to undermine democracy or democratic tendencies in Eurasia, and to threaten the United States itself. ... [I]f [the United States] refuses to acknowledge the true dimensions of this relationship and rethink its strategy, policy, and military posture, the United States, other governments and other peoples may well pay an exorbitant price for its complacency and blindness." at 17.

117 See, e.g., Joint U.S.-China Statement during President Jiang's visit to Washington on October 29, 1997 ("The two Presidents are determined to build toward a constructive strategic partnership between the United States and China. ..."). The PRC itself at one time returned the favor. In his speech at Harvard during a fall 1997 visit to the United States, President Jiang stated that "China and the United States should strengthen cooperation and work to build a constructive strategic partnership oriented toward the 21st century." See also remarks of President Clinton and President Jiang in Exchange of Toasts, October 29, 1997 ("President Clinton and I reached agreement on the goal of the future development of China-U.S. relations--namely ... China and the United States should strengthen cooperation and endeavor to build a constructive strategic partnership oriented toward the 21st century.") Subsequent PRC descriptions are less fulsome. See Stephen J. Blank, U.S. Army War College, "New Strategic Trends in Russo-Chinese Relations," testimony before the House Armed Services Committee hearing on "Military Capabilities of the People's Republic of China," July 19, 2000, p. 1 and n. 1.

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Chapter 12

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- 3 Survey carried out by ISM Research Centre of 3400 respondents across Russia, ECONOMIST, Oct. 3, 1998, p. 60.
- 4 Michael R. Gordon, "Hardened by Their History of Hardships, Russians Simply Stretch the Rubles Further," N.Y. TIMES, Aug. 23, 1999, p. A8.
- 5 European Bank for Reconstruction and Development, Annual Report 2000, p. 75.
- 6 Ben Hooson, "Optimistic Government Predicts 5.5% Growth," MOSCOW TIMES, July 28, 2000.
- 7 Magen Mongush, "Statistics Chief Unveils Rosy Figures," MOSCOW TIMES, Aug. 1, 2000.
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- 14 Peter Graff, "Putin Signs Revolutionary Russian Tax Overhaul," Reuters, Aug. 7, 2000.
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- 16 "Russian Capitol Flight Drops to \$300 Million a Month," Reuters, June 20, 2000.
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- 19 WALL ST. J., June 21, 2000; Russian National Institute for Social and Psychological Research, Jan. 2000 at http://www.cisco.com/warp/public/779/govtaff/factsNStats/Internet_Usage.html#EUROPE.; *see also* Interfax, "Internet Use in Russia on the Increase," Aug. 17, 2000.
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